DCP Midstream Partners, LP
Form 10-K
March 14, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Form 10-K**

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended: December 31, 2006**

**or**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**

**Commission file number: 001-32678**

**DCP MIDSTREAM PARTNERS, LP**
*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Delaware**<br>*(State or other jurisdiction of incorporation or organization)* | **03-0567133**<br>*(I.R.S. Employer Identification No.)* |
| **370 17th Street, Suite 2775**<br>**Denver, Colorado**<br>*(Address of principal executive offices)* | **80202**<br>*(Zip Code)* |

**Registrant s telephone number, including area code: 303-633-2900**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class: | Name of Each Exchange on Which Registered: |
|---|---|
| Common Units Representing Limited Partner Interests | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act:**
**NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Exchange Act of 1934, or the Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Act) (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of common limited partner units held by non-affiliates of the registrant on June 30, 2006, was approximately $288,920,000. The aggregate market value was computed by reference to the last sale price of the registrant s common units on the New York Stock Exchange on June 30, 2006.

As of March 12, 2007, there were outstanding 10,357,143 common limited partner units, 200,312 Class C units, and 7,142,857 subordinated units.

**DOCUMENTS INCORPORATED BY REFERENCE:**

None.

**DCP MIDSTREAM PARTNERS, LP**
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**PART IV.**

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## GLOSSARY OF TERMS

The following is a list of certain industry terms used throughout this report:

| | |
|---|---|
| Bbls | barrels |
| Bbls/d | barrels per day |
| Btu | British thermal unit, a measurement of energy |
| Fractionation | the process by which natural gas liquids are separated into individual components |
| Frac spread | price differences, measured in energy units, between equivalent amounts of natural gas and NGLs |
| MBbls | one thousand barrels |
| MBbls/d | one thousand barrels per day |
| MMcf | one million cubic feet |
| MMcf/d | one million cubic feet per day |
| MMBtu | one million British thermal units, a measurement of energy |
| NGLs | natural gas liquids |
| Tcf | one trillion cubic feet |
| Throughput | the volume of product transported or passing through a pipeline or other facility |

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## CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Our reports, filings and other public announcements may from time to time contain statements that do not directly or exclusively relate to historical facts. Such statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words, such as may, could, project, believe, anticipate, expect, estimate, potential, pl other similar words.

All statements that are not statements of historical facts, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements.

These forward-looking statements reflect our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside our control. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Known risks and uncertainties include, but are not limited to, the risks set forth in Item 1A. Risk Factors as well as the following risks and uncertainties:

the level and success of natural gas drilling around our assets, and our ability to connect supplies to our gathering and processing systems in light of competition;

our ability to grow through acquisitions, contributions from affiliates, or organic growth projects, and the successful integration and future performance of such assets;

our ability to access the debt and equity markets, which will depend on general market conditions, interest rates and our ability to effectively hedge such rates with derivative financial instruments to limit a portion of the adverse effects of potential changes in interest rates, and the credit ratings for our debt obligations;

the extent of changes in commodity prices, our ability to effectively hedge to limit a portion of the adverse impact of potential changes in prices through derivative financial instruments, and the potential impact of price on natural gas drilling, demand for our services, and the volume of NGLs and condensate extracted;

our ability to purchase propane from our principal suppliers for our wholesale propane logistics business;

our ability to construct facilities in a timely fashion, which is partially dependent on obtaining required building, environmental and other permits issued by federal, state and municipal governments, or agencies thereof, the availability of specialized contractors and laborers, and the price of and demand for supplies;

the creditworthiness of counterparties to our transactions;

weather and other natural phenomena, including their potential impact on demand for the commodities we sell and our and third-party-owned infrastructure;

changes in laws and regulations, particularly with regard to taxes, safety and protection of the environment or the increased regulation of our industry;

industry changes, including the impact of consolidations, alternative energy sources, technological advances and changes in competition;

- the amount of collateral required to be posted from time to time in our transactions; and

- general economic, market and business conditions.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Item 1.** ***Business***

**Our Partnership**

DCP Midstream Partners, LP along with its consolidated subsidiaries, or we, us, our, or the partnership, is a Delaware limited partnership formed by DCP Midstream, LLC (formerly Duke Energy Field Services, LLC) to own, operate, acquire and develop a diversified portfolio of complementary midstream energy assets. We are currently engaged in the business of gathering, compressing, treating, processing, transporting and selling natural gas, the business of producing, transporting and selling propane and other natural gas liquids, or NGLs, and the business of storing propane. Supported by our relationship with DCP Midstream, LLC and its parents, Spectra Energy Corp (the natural gas business which was spun off from Duke Energy Corporation, or Duke Energy, effective January 2, 2007), which we refer to as Spectra Energy, and ConocoPhillips, we intend to acquire and construct additional assets and we have a management team dedicated to executing our growth strategy.

Our operations are organized into three business segments, Natural Gas Services, Wholesale Propane Logistics and NGL Logistics.

Our Natural Gas Services segment is comprised of our North Louisiana system, which is an integrated pipeline system located in northern Louisiana and southern Arkansas that gathers, compresses, treats, processes, transports and sells natural gas, and that sells NGLs. This system consists of the following:

- the Minden processing plant and gathering system, which includes a cryogenic natural gas processing plant supplied by approximately 700 miles of natural gas gathering pipelines, connected to approximately 460 receipt points, with throughput and processing capacity of approximately 115 million cubic feet per day, or MMcf/d;

- the Ada processing plant and gathering system, which includes a refrigeration natural gas processing plant supplied by approximately 130 miles of natural gas gathering pipelines, connected to approximately 210 receipt points, with throughput capacity of approximately 80 MMcf/d; and

- the Pelico Pipeline, LLC system, or Pelico system, an approximately 600-mile intrastate natural gas gathering and transportation pipeline with throughput capacity of approximately 250 MMcf/d and connections to the Minden and Ada processing plants and approximately 450 other receipt points. The Pelico system delivers natural gas to multiple interstate and intrastate pipelines, as well as directly to industrial and utility end-use markets.

Our Wholesale Propane Logistics segment, which we acquired in November 2006, consists of the following:

- six owned propane rail terminals located in the Midwest and northeastern United States, with aggregate storage capacity of 25 thousand barrels, or MBbls;

- one leased propane marine terminal located in Providence, Rhode Island, with storage capacity of 450 MBbls;

- one propane pipeline terminal that is under construction in Midland, Pennsylvania; and

- access to several open access pipeline terminals.

Our NGL Logistics segment consists of the following:

- our Seabreeze pipeline, an approximately 68-mile intrastate NGL pipeline in Texas with throughput capacity of 33 thousand barrels per day, or MBbls/d;
- our Wilbreeze pipeline, the construction of which was completed in December 2006, an approximately 39-mile intrastate NGL pipeline in Texas, which connects a DCP Midstream, LLC gas processing plant to the Seabreeze pipeline, with throughput capacity of 11 MBbls/d; and
- our 45% interest in the Black Lake Pipe Line Company, or Black Lake, the owner of an approximately 317-mile interstate NGL pipeline in Louisiana and Texas with throughput capacity of 40 MBbls/d.

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For additional information on our segments, please see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, and Note 18 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

## Our Business Strategies

Our primary business objective is to increase our cash distribution per unit over time. We intend to accomplish this objective by executing the following business strategies:

***Optimize: maximize the profitability of existing assets.*** We intend to optimize the profitability of our existing assets by adding new volumes of natural gas, propane and NGLs, and undertaking additional initiatives to enhance utilization and improve operating efficiencies. Our natural gas assets, and propane and NGL pipelines, have excess capacity, which allows us to connect new supplies of natural gas, propane and NGLs at minimal incremental cost.

***Build: capitalize on organic expansion opportunities.*** We continually evaluate economically attractive organic expansion opportunities to construct new midstream systems in new or existing operating areas. For example, we believe there are opportunities to expand our North Louisiana system to transport increased volumes of natural gas produced in east Texas to premium markets and interstate pipeline connections on the eastern end of our North Louisiana system.

***Acquire: pursue strategic and accretive acquisitions.*** We plan to pursue strategic and accretive acquisition opportunities within the midstream energy industry, both in new and existing lines of business, and geographic areas of operation. In light of the recent industry trend of large energy companies divesting their midstream assets, we believe there will continue to be acquisition opportunities. We intend to pursue acquisition opportunities both independently and jointly with DCP Midstream, LLC and its parents, Spectra Energy and ConocoPhillips, and we may also acquire assets directly from them, which we believe will provide us with a broader array of growth opportunities than those available to many of our competitors.

## Our Competitive Strengths

We believe that we are well positioned to execute our primary business objective and business strategies successfully because of the following competitive strengths:

***Affiliation with DCP Midstream, LLC and its parents.*** Our relationship with DCP Midstream, LLC and its parents, Spectra Energy and ConocoPhillips, may provide us with significant business opportunities. DCP Midstream, LLC is one of the largest gatherers of natural gas (based on wellhead volume), one of the largest producers of NGLs and one of the largest marketers of NGLs in North America. Our relationship with DCP Midstream, LLC, Spectra Energy and ConocoPhillips also provides us with access to a significant pool of management talent. We believe our strong relationships throughout the energy industry, including with major producers of natural gas and NGLs in the United States, will help facilitate implementation of our strategies. Additionally, we believe DCP Midstream, LLC has established a reputation in the midstream business as a reliable and cost-effective supplier of services to our customers, and has a track record of safe and efficient operation of our facilities.

***Strategically located assets.*** We own and operate one of the largest integrated natural gas gathering, compression, treating, processing and transportation systems in northern Louisiana, an active natural gas producing area. This system is also well positioned. We believe there are opportunities to expand this system to transport increased volumes of natural gas, from east Texas and west Louisiana, to premium markets on the eastern end of our North Louisiana system, and to interconnections with major interstate natural gas pipelines that transport natural gas to consumer markets in the eastern and northeastern United States. Our NGL pipelines are also strategically located to transport NGLs from plants that process natural gas produced in Texas and northern Louisiana to large fractionation facilities, a petrochemical plant and an underground NGL storage facility along the Gulf Coast.

***Stable cash flows.*** Our operations consist of a favorable mix of fee-based and margin-based services, which together with our hedging activities, generate relatively stable cash flows. While our percentage-of-proceeds gathering and processing contracts subject us to commodity price risk, we have hedged a significant portion of our natural gas and NGL commodity price risk related to these arrangements through 2010. As part of our gathering operations, we recover and sell condensate. We have hedged a significant portion of our expected condensate commodity price risk relating to our natural gas gathering operations through 2011. For additional information regarding our hedging activities, please read Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures about Market Risk Hedging Strategies.

***Integrated package of midstream services.*** We provide an integrated package of services to natural gas producers, including natural gas gathering, compression, treating, processing, transportation and sales, and NGL transportation and sales. We believe our ability to provide all of these services gives us an advantage in competing for new supplies of natural gas because we can provide substantially all of the services producers, marketers and others require to move natural gas and NGLs from wellhead to market on a cost-effective basis.

***Comprehensive propane logistics systems.*** We have multiple propane supply sources and terminal locations for wholesale propane delivery. We believe our ability to purchase large volumes of propane supply and transport such supply for resale or storage allows us to provide our customers with reliable deliveries of propane during periods of tight supply. These capabilities also allow us to moderate the effects of commodity price volatility and reduce significant fluctuations in our sales volumes.

***Experienced management team.*** Our senior management team and board of directors includes some of the most senior officers of DCP Midstream, LLC and former senior officers from other energy companies who have extensive experience in the midstream industry. Our management team has a proven track record of enhancing value through the acquisition, optimization and integration of midstream assets.

**Our Relationship with DCP Midstream, LLC and its Parents**

One of our principal attributes is our relationship with DCP Midstream, LLC and its parents, Spectra Energy and ConocoPhillips. DCP Midstream, LLC commenced operations in 2000 following the contribution to it of the combined North American midstream natural gas gathering, processing and marketing and NGL businesses of Duke Energy and Phillips Petroleum Company (prior to its merger with Conoco Inc.). Currently, DCP Midstream, LLC is owned 50% by Spectra Energy and 50% by ConocoPhillips.

DCP Midstream, LLC intends to use us as an important growth vehicle to pursue the acquisition and expansion of midstream natural gas, NGL and other complementary energy businesses and assets. In November 2006, we acquired our wholesale propane logistics business from DCP Midstream, LLC, and in October 2006, we announced that DCP Midstream, LLC had committed to contribute assets to us in exchange for partnership units and cash valued at approximately $250.0 million. The transaction is targeted for the second quarter of 2007. Identification of the specific assets and the related purchase price, along with the other terms of any specific transaction between DCP Midstream, LLC and us, are subject to the approval of the boards of directors of both us and DCP Midstream, LLC, as well as the special committee of our board of directors. We expect to have future opportunities to make other acquisitions directly from DCP Midstream, LLC; however, we cannot say with any certainty which, if any, of these acquisitions may be made available to us, or if we will choose to pursue any such opportunity. In addition, through our relationship with DCP Midstream, LLC and its parents, we expect to have access to a significant pool of management talent, strong commercial relationships throughout the energy industry and DCP Midstream, LLC s broad operational, commercial, technical, risk management and administrative infrastructure.

DCP Midstream, LLC has a significant interest in our partnership through its ownership of a 2% general partner interest in us, all of our incentive distribution rights and a 40.7% limited partner interest in us. We have entered into an omnibus agreement, or the Omnibus Agreement, with DCP Midstream, LLC and some of its affiliates that governs our relationship with them regarding certain reimbursement and indemnification matters.

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While our relationship with DCP Midstream, LLC and its parents is a significant attribute, it is also a source of potential conflicts. For example, DCP Midstream, LLC, Spectra Energy, ConocoPhillips or their affiliates are not restricted from competing with us. Each of them may acquire, construct or dispose of midstream or other assets in the future without any obligation to offer us the opportunity to purchase or construct those assets.

**Natural Gas and NGLs Overview**

The midstream natural gas industry is the link between exploration and production of natural gas and the delivery of its components to end-use markets, and consists of the gathering, compression, treating, processing, transportation and selling of natural gas, and the production, transportation and selling of NGLs.

***Natural Gas Demand and Production***

Natural gas is a critical component of energy consumption in the United States. According to the Energy Information Administration, or the EIA, total annual domestic consumption of natural gas is expected to increase from approximately 22.0 trillion cubic feet, or Tcf, in 2005 to approximately 24.0 Tcf in 2010, representing an average annual growth rate of over 1.8% per year. The industrial and electricity generation sectors are the largest users of natural gas in the United States, accounting for approximately 57% of the total natural gas consumed in the United States during 2005. Driven by projections of continued growth in natural gas demand and higher natural gas prices, domestic natural gas production is projected to increase from 18.3 Tcf per year to 19.4 Tcf per year between 2005 and 2010.

***Midstream Natural Gas Industry***

Once natural gas is produced from wells, producers then seek to deliver the natural gas and its components to end-use markets. The following diagram illustrates the natural gas gathering, processing, fractionation, storage and transportation process, which ultimately results in natural gas and its components being delivered to end-users.

***Natural Gas Gathering***

The natural gas gathering process begins with the drilling of wells into gas-bearing rock formations. Once the well is completed, the well is connected to a gathering system. Onshore gathering systems generally consist of a network of small diameter pipelines that collect natural gas from points near producing wells and transport it to larger pipelines for further transmission.

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*Natural Gas Compression*

Gathering systems are generally operated at design pressures that will maximize the total throughput from all connected wells. Since wells produce at progressively lower field pressures as they age, it becomes increasingly difficult to deliver the remaining production from the ground against a higher pressure that exists in the connecting gathering system. Natural gas compression is a mechanical process in which a volume of wellhead gas is compressed to a desired higher pressure, allowing gas to flow into a higher pressure downstream pipeline to be brought to market. Field compression is typically used to lower the pressure of a gathering system to operate at a lower pressure or provide sufficient pressure to deliver gas into a higher pressure downstream pipeline. If field compression is not installed, then the remaining natural gas in the ground will not be produced because it cannot overcome the higher gathering system pressure. In contrast, if field compression is installed, then a well can continue delivering production that otherwise would not be produced.

*Natural Gas Processing and Transportation*

The principal component of natural gas is methane, but most natural gas also contains varying amounts of NGLs including ethane, propane, normal butane, isobutane and natural gasoline. NGLs have economic value and are utilized as a feedstock in the petrochemical and oil refining industries or directly as heating, engine or industrial fuels. Long-haul natural gas pipelines have specifications as to the maximum NGL content of the gas to be shipped. In order to meet quality standards for long-haul pipeline transportation, natural gas collected through a gathering system may need to be processed to separate hydrocarbon liquids that can have higher values as mixed NGLs from the natural gas. NGLs are typically recovered by cooling the natural gas until the mixed NGLs become separated through condensation. Cryogenic recovery methods are processes where this is accomplished at temperatures lower than minus 150ºF. These methods provide higher NGL recovery yields. After being extracted from natural gas, the mixed NGLs are typically transported via NGL pipelines or trucks to a fractionator for separation of the NGLs into their component parts.

In addition to NGLs, natural gas collected through a gathering system may also contain impurities, such as water, sulfur compounds, nitrogen or helium. As a result, a natural gas processing plant will typically provide ancillary services such as dehydration and condensate separation prior to processing. Dehydration removes water from the natural gas stream, which can form ice when combined with natural gas and cause corrosion when combined with carbon dioxide or hydrogen sulfide. Condensate separation involves the removal of hydrocarbons from the natural gas stream. Once the condensate has been removed, it may be stabilized for transportation away from the processing plant via truck, rail or pipeline. Natural gas with a carbon dioxide or hydrogen sulfide content higher than permitted by pipeline quality standards requires treatment with chemicals called amines at a separate treatment plant prior to processing.

**Wholesale Propane Logistics Overview**

*General*

We are engaged in wholesale propane logistics in the Midwest and northeastern United States. Wholesale propane logistics covers the receipt of propane from processing plants, fractionation facilities and crude oil refineries, the transportation of that propane by pipeline, rail or ship to terminals and storage facilities, the storage of propane during low-demand seasons and the delivery of the propane to retail distributors of propane. We engage in all of these wholesale propane logistics services.

*Production of Propane*

Propane is extracted from natural gas at processing plants, separated from raw mixed NGLs at fractionation facilities or separated from crude oil during the refining process. Most of the propane that is consumed in the United States is produced at processing plants, fractionation facilities and refineries located along the Texas and Louisiana Gulf Coast or in foreign locations, particularly Canada, the North Sea, East Africa and the Middle East.

***Transportation***

There are limited processing plants and fractionation facilities in the northeastern United States, and propane production is limited. While significant refinery production exists, propane delivery ratios are limited and refineries sometimes use propane as internal fuel during winter months. As a result, the northeastern United States is an importer of propane, relying almost exclusively on pipeline, marine and rail sources for incoming supplies. Propane is received primarily through pipeline shipments from the Texas and Louisiana Gulf Coast, through rail shipments from western Canada and the Midwest United States, and through marine shipments primarily from the North Sea, East Africa and the Middle East. Propane is normally transported and stored in a liquid state under moderate pressure or refrigeration for ease of handling in shipping and distribution.

***Storage***

Independent terminal operators and wholesale distributors, such as us, own, lease or have access to propane storage terminals that receive supplies via pipeline, ship or rail. Generally, inventories in the propane storage facilities increase during the spring and summer months for delivery to customers during the fall and winter heating season when demand is typically at its peak.

***Delivery***

Often, upon receipt of propane at marine, rail and pipeline terminals, product is delivered to customer trucks or is stored in tanks located at the terminals or in off-site bulk storage facilities for future delivery to customers. Most terminals and storage facilities have a tanker truck loading facility commonly referred to as a rack. Often independent retailers will rely on independent trucking companies to pick up product at the rack and transport it to the retailer at its location. Each truck has storage capacity of generally between 9,500 and 12,500 gallons of propane.

***Retail uses of propane***

Propane is a clean-burning energy source recognized for its transportability and ease of use relative to alternative forms of stand-alone energy sources. Retail propane use falls into three broad categories: (1) residential applications; (2) industrial, commercial and agricultural applications; and (3) other retail applications, including motor fuel sales. Residential customers use propane primarily for home and water heating. Industrial customers use propane primarily as fuel for forklifts, stationary engines, and furnaces, as a cutting gas, in mining operations and in other process applications. Commercial customers, such as restaurants, motels, laundries and commercial buildings, use propane in a variety of applications, including cooking, heating and drying. In the agricultural market, propane is primarily used for tobacco curing, crop drying, poultry brooding and weed control. Other retail uses include motor fuel for cars and trucks, outdoor cooking and other recreational uses. Based upon industry publications, propane accounts for three to four percent of household energy consumption in the United States.

Propane competes with other sources of energy such as electricity, natural gas and heating oil. Although the extension of natural gas pipelines tends to displace propane distribution in areas affected, we believe that new opportunities for propane sales arise as more geographically remote neighborhoods are developed. Many of the new residential growth areas with high demand for propane are located in areas that are difficult or impracticable for natural gas pipelines to reach.

**Natural Gas Services Segment**

***General***

Our Natural Gas Services segment consists of the North Louisiana system, which is a large integrated midstream natural gas system that offers the following services:

- gathering;

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- compression;
- treating;
- processing;
- transportation; and
- sales of natural gas, NGLs and condensate.

The system covers ten parishes in northern Louisiana and two counties in southern Arkansas. Through our North Louisiana system, we offer producers and customers wellhead-to-market services. The North Louisiana system has numerous market outlets for the natural gas that we gather, including several intrastate and interstate pipelines, eight major industrial end-users and three major power plants. The system is strategically located to facilitate the transportation of natural gas from eastern Texas and northern Louisiana to pipeline connections linking to markets in the eastern and northeastern areas of the United States.

A map representing the location of the assets that comprise the North Louisiana system is set forth below:

***Gathering Systems***

The North Louisiana natural gas gathering system has approximately 830 miles of natural gas gathering pipelines, ranging in size from two inches to twelve inches in diameter. The system has aggregate throughput capacity of approximately 195 MMcf/d and average throughput on the system was approximately 148 MMcf/d in 2006. There are 26 compressor stations located within the system, comprised of 60 units with an aggregate of approximately 70,000 horsepower.

The Minden gathering system is an approximately 700-mile natural gas gathering system located in Bossier, Claiborne, Jackson, Lincoln, Ouachita and Webster parishes, Louisiana and two Arkansas counties.

The system gathers natural gas from producers at approximately 460 receipt points and delivers it for processing to the Minden processing plant. The Minden gathering system also delivers NGLs produced at the Minden processing plant to the Black Lake pipeline. The Minden gathering system has throughput capacity of approximately 115 MMcf/d, and had aggregate throughput of approximately 76 MMcf/d in 2006.

The Ada gathering system is an approximately 130-mile natural gas gathering system located in Bienville and Webster parishes, Louisiana. The system gathers natural gas from producers at approximately 210 receipt points and delivers it for processing to the Ada processing plant. The Ada gathering system has throughput capacity of approximately 80 MMcf/d, and had throughput of approximately 72 MMcf/d in 2006.

***Processing Plants***

The Minden processing plant is a cryogenic natural gas processing and treating plant located in Webster parish, Louisiana. The Minden processing plant has a design capacity of 115 MMcf/d. In 2006, the Minden processing plant processed approximately 76 MMcf/d of natural gas and produced approximately 5,100 Bbls/d of NGLs. This processing plant has amine treating and ethane recovery and rejection capabilities such that we can recover approximately 80% of the ethane contained in the natural gas stream. In addition, the processing plant is able to reject ethane of effectively 13% when justified by market economics. This processing flexibility enables us to maximize the value of ethane for our customers. In 2002, we upgraded the Minden processing plant to enable greater ethane recovery and rejection capabilities. As part of that project, we reached an agreement with our customers to receive 100% of the realized margin attributable to the incremental value of ethane recovered as an NGL from the natural gas stream when appropriate market conditions exist and until a defined return on the initial investment is reached.

The Ada processing plant is a refrigeration natural gas processing plant located in Bienville parish, Louisiana. The Ada processing plant has a design capacity of 45 MMcf/d. In 2006, the facility processed approximately 54 MMcf/d of natural gas and produced approximately 186 Bbls/d of NGLs.

***Transportation System***

The Pelico system is an approximately 600-mile intrastate natural gas gathering and transportation pipeline with approximately 250 MMcf/d of capacity and average throughput of approximately 236 MMcf/d in 2006. The Pelico system gathers and transports natural gas that does not require processing from producers in the area at approximately 450 meter locations. Additionally, the Pelico system transports processed gas from the Minden and Ada processing plants and natural gas supplied from third party interstate and intrastate natural gas pipelines. The Pelico system also receives natural gas produced in eastern Texas through its interconnect with other pipelines that transport natural gas from eastern Texas into western Louisiana.

***Natural Gas Markets***

The North Louisiana system has numerous market outlets for the natural gas that we gather on the system. Our natural gas pipelines connect to the Perryville Market Hub, a natural gas marketing hub that provides connection to four intrastate or interstate pipelines, including pipelines owned by Southern Natural Gas Company, Texas Gas Transmission, LLC, CenterPoint Energy Mississippi River Transmission Corporation and CenterPoint Energy Gas Transmission Company. In addition, our natural gas pipelines also have access to gas that flows through pipelines owned by Texas Eastern Transmission, LP, Crosstex LIG, LLC, Gulf South Pipeline Company, Tennessee Natural Gas Company and Regency Intrastate Gas, LLC. The North Louisiana system is also connected to eight major industrial end-users and makes deliveries to three power plants. Generally, the gas flows from our Minden and Ada gathering systems and Pelico system from west to east toward the industrial and interstate markets with the exception of some industrial end-users located near the central-southern section of the Pelico system. This flow pattern changes somewhat during the summer when utility loads increase deliveries off the same central-southern section of the Pelico system. Our access to numerous market outlets, including interstate pipelines in northeastern Louisiana that deliver natural gas to premium markets on the northeast and east coast, and to several end-users located on our system provides us with the flexibility to deliver our natural gas supply to markets with the most attractive pricing.

The NGLs extracted from the natural gas at the Minden processing plant are delivered to the Black Lake pipeline through our wholly-owned approximately 9-mile Minden NGL pipeline. The NGLs are sold at market index prices to an affiliate of DCP Midstream, LLC and transported to the Mont Belvieu hub via the Black Lake pipeline of which we own a 45% interest. The NGLs extracted from natural gas at the Ada processing plant are sold at market index prices to affiliates and are delivered to the third parties trucks at the tailgate of the plant.

*Customers and Contracts*

The primary suppliers of natural gas to our North Louisiana system are Anadarko Petroleum Corporation and ConocoPhillips (one of our affiliates), which collectively represented approximately 60% of the 312 MMcf/d of natural gas supplied to this system in 2006 and 48% of the 355 MMcf/d and 328 MMcf/d natural gas supplied to this system in 2005 and 2004, respectively. We actively seek new supplies of natural gas to increase throughput volume and to offset natural declines in the production from connected wells. We obtain new natural gas supplies in our operating areas by contracting for production from new wells, by connecting new wells drilled on dedicated acreage and by obtaining natural gas that has been released from other gathering systems. No individual customer in our Natural Gas Services segment accounted for more than 10% of our total operating revenues for the years ended December 31, 2006, 2005 and 2004.

We currently have approximately 1,100 receipt points on the North Louisiana system receiving natural gas production from individual wells or groups of wells. Approximately 60% of these receipt points are located on our Minden gathering system and our Ada gathering system. The remaining 40% of these receipt points are located on the Pelico system. The natural gas supplied to the North Louisiana system is generally dedicated to us under individually negotiated long-term contracts that provide for the commitment by the producer of all natural gas produced from designated properties. Generally, the initial term of these purchase agreements is for three to five years or, in some cases, the life of the lease. Our Pelico system receives natural gas from our Minden and Ada gathering systems and processing plants as well as from interconnects with other intrastate pipelines that deliver gas from other producing areas in eastern Texas and northern Louisiana, and from other wellhead receipt points directly connected to the system.

For natural gas that is gathered and then processed at our Minden or Ada processing plants, we receive the wellhead natural gas from the producers primarily under percentage-of-proceeds arrangements or fee-based arrangements. Our gross margin generated from percentage-of-proceeds gathering and processing contracts is directly correlated to the price of natural gas, NGLs and condensate. To minimize this potential future volatility we have entered into a series of derivative financial instrument agreements to hedge our natural gas, NGLs and condensate. As a result of these transactions, we have hedged a significant portion of our share of anticipated natural gas, NGLs and condensate attributable to these contracts through 2010. We have also hedged a significant portion of our condensate commodity price risk through 2011.

We gather and transport natural gas on the Pelico system under a combination of fee-based transportation agreements and merchant arrangements. We have also entered into a contractual arrangement with a subsidiary of DCP Midstream, LLC that requires DCP Midstream, LLC to supply Pelico s system requirements that exceed its on-system supply. Accordingly, DCP Midstream, LLC purchases natural gas and transports it to our Pelico system, where we buy the gas from DCP Midstream, LLC at the actual acquisition cost plus transportation service charges incurred. If our Pelico system has volumes in excess of the on-system demand, DCP Midstream, LLC will purchase the excess natural gas from us and transport it to sales points at an index-based price less a contractually agreed to marketing fee. In addition, DCP Midstream, LLC may purchase other excess natural gas volumes at certain Pelico outlets for a price that equals the original Pelico purchase price from DCP Midstream, LLC plus a portion of the index differential between upstream sources to certain downstream indices with a maximum differential and a minimum differential plus a fixed fuel charge and other related adjustments. To the extent possible, we match the pricing of our supply portfolio to our sales portfolio in order to lock in value and reduce our overall commodity price risk. We manage the commodity price risk of our supply portfolio and sales portfolio with both physical and financial transactions. As a service to our customers, we may enter into physical fixed price natural gas purchases and sales, utilizing financial derivatives to swap this fixed price risk back to market index. We account for such a physical fixed price transaction and the related financial derivative as a fair value hedge. We occasionally will enter into financial derivatives to lock in price differentials across the Pelico system to maximize the value of pipeline capacity. These financial derivatives are accounted for using mark-to-market accounting.

*Competition*

The North Louisiana system experiences competition in all of its local markets. The North Louisiana system s principal areas of competition include obtaining natural gas supplies for the Minden processing plant and Ada processing plant and natural gas transportation customers for the Pelico system. The North Louisiana system s competitors include major integrated oil and gas companies, interstate and intrastate pipelines, and companies that gather, compress, treat, process, transport and/or market natural gas. The Pelico system competes with interstate and intrastate pipelines. These include pipelines owned by Regency Intrastate Gas, LLC, Gulf South Pipeline Company and Tennessee Natural Gas Company. The Minden and Ada processing plants compete with other natural gas gathering and processing systems owned by XTO Energy Inc., Regency Intrastate Gas, LLC and Gulf South Pipeline Company, as well as producer-owned systems.

**Wholesale Propane Logistics Segment**

*General*

We operate a wholesale propane logistics business in the Midwest and northeastern United States. We own assets and do business in the states of New York, Pennsylvania, Ohio, Massachusetts, Vermont, New Hampshire, Rhode Island, Connecticut and Maine. We purchase large volumes of propane supply from natural gas processing plants and fractionation facilities, and crude oil refineries, primarily located in the Texas and Louisiana Gulf Coast area, Canada and other international sources, and transport these volumes of propane supply by pipeline, rail or ship to our terminals and storage facilities in the Midwest and the northeastern areas of the United States. We sell propane on a wholesale basis to retail propane distributors who in turn resell propane to their retail customers.

Due to our multiple propane supply sources, long-term propane supply purchase arrangements, significant storage capabilities, and multiple terminal locations for wholesale propane delivery, we are generally able to provide our retail propane distribution customers with reliable deliveries of propane during periods of tight supply such as the winter months when their retail customers consume the most propane for home heating. In particular, we generally offer our customers the ability to obtain propane supply volumes from us in the winter months that are significantly greater than the volume of propane purchased from us in the summer. We believe these factors generally allow us to maintain favorable relationships with our customers.

We manage our wholesale propane margins by selling propane to retail propane distributors under annual sales agreements negotiated each spring that specify floating price terms that provide us a margin in excess of our floating index-based supply costs under our supply purchase arrangements. In the event that a retail propane distributor desires to purchase propane from us on a fixed price basis, we sometimes enter into fixed price sales agreements with terms of generally up to one year, and we manage this commodity price risk by entering into either offsetting physical purchase agreements or financial derivative instruments, with either DCP Midstream, LLC or third parties, that generally match the quantities of propane subject to these fixed price sales agreements. The financial derivatives are accounted for using mark-to-market accounting. Our portfolio of multiple supply sources and storage capabilities allows us to actively manage our propane supply purchases and to lower the aggregate cost of supplies. In addition, we may, on occasion, use financial derivatives to manage the value of our propane inventories.

Pipeline deliveries to the northeast market, which consists of New York, Pennsylvania, Ohio, Massachusetts, Vermont, New Hampshire, Rhode Island, Connecticut and Maine, in the winter season are generally at capacity and competing pipeline dependent terminals can have supply constraints or outages during peak market conditions. Our system of terminals has substantial excess capacity, which provides us with opportunities to increase our volumes with minimal additional cost. Additionally, we are constructing a propane pipeline terminal located in Midland, Pennsylvania that is expected to be operational in the second quarter of 2007, and we are actively seeking new rail terminals in the northeastern market through acquisition or construction to expand our distribution capabilities.

***Our Terminals***

Our operations include six propane rail terminals with aggregate storage capacity of 25 MBbls, one propane marine terminal with storage capacity of 450 MBbls, one propane pipeline terminal under construction and access to several open access pipeline terminals. A map representing the location of our propane rail terminals, our leased propane marine terminal and the open access pipeline terminals that we utilize is set forth below:

We own our rail terminals and lease the land on which the terminals are situated under long-term leases. Our marine terminal is leased from TEPPCO Partners, LP under a 10-year lease expiring in 2014. Each of our rail terminals consist of two to four propane tanks with capacity of between 30,000 and 90,000 gallons for storage, and two high volume loading racks for loading propane into trucks. Our aggregate truck-loading capacity is approximately 400 trucks per day. We could expand each of our terminals loading capacity by adding a third loading rack to handle future growth. High volume submersible pumps are utilized to enable trucks to fully load within 15 minutes. Each facility also has the ability to unload multiple railcars simultaneously. We have numerous railcar leases that allow us to increase our storage and throughput capacity as propane demand increases. Each terminal relies on leased rail trackage for the storage of the majority of its propane inventory in these leased railcars. These railcars mitigate the need for larger numbers of fixed storage tanks and reduce initial capital needs when constructing a terminal. Each railcar holds approximately 30,000 gallons of propane.

The number and geographic locations of our terminals, as well as our access to propane supply from multiple supply sources, allows us:

- to provide our customers with reliable deliveries during periods of tight supply and, as a result, we are often able to offer our customers a favorable winter/summer volume ratio; and the flexibility to manage physical inventories during periods of lower propane prices such as those typically experienced in the summer months.

These factors have allowed us to remain a supplier to many of the large retail distributors in the northeastern United States. As a result, we serve as the baseload provider of propane supply to many of our retail propane distribution customers.

We are also actively seeking to expand our wholesale propane distribution business into the upper Midwest and Mid-Atlantic states. In this regard, we currently have a propane pipeline terminal under construction in western Pennsylvania that was originally expected to be operational during the fourth quarter of 2006. This propane pipeline terminal is now expected to be operational in the second quarter of 2007. This terminal, which will have storage capacity of 56 MBbls, is expected to position us favorably in establishing a presence in this region.

***Propane Supply***

Our wholesale propane business has a strategic network of supply arrangements under multi-year agreements providing approximately 7,760 MBbls per year of supply under index-based pricing. The remaining supply is purchased on annual or month-to-month terms to match our anticipated sale requirements. Generally, these agreements cover a specific volume per month and pricing is based on index prices.

For our rail terminals, we contract for propane at various major supply points in the United States and Canada, and transport the product to our terminals under long-term rail commitments, which provide fixed transportation costs that are subject to prevailing fuel surcharges. These long-term rail commitments have terms expiring in 2007 through 2010. We also purchase propane supply from natural gas fractionation plants and crude oil refineries located in the Texas and Louisiana Gulf Coast areas and transport this supply of propane on TEPPCO Partners, LP s pipeline from the Mont Belvieu market hub in east Texas under published tariff rates to open access terminals located in the Midwest and northeastern United States. Through this process, we take custody of the propane and either sell it in the wholesale market or store it at our facilities. For our marine terminal, we contract under annual agreements for delivered shipments of propane. Under these agreements, we are not required to pay for the propane until delivery of the propane to our customers at the rack delivery point, based upon an agreed-to schedule, which minimizes the amount of inventory we carry. The port where our marine terminal facility is located has recently been expanded, and we can now receive propane supply from the largest propane tankers currently in service.

During 2006, our primary suppliers of propane were Aux Sable Liquid Products LP and Shell International Trading and Shipping Company, which collectively accounted for approximately 22% of our consolidated purchases of natural gas, propane and NGLs in 2006. We had no supplier who accounted for more than 10% of our consolidated purchases of natural gas, propane and NGLs in 2005 or 2004.

***Markets and Customers***

We typically sell propane to retail propane distributors under annual sales agreements negotiated each spring that specify floating price terms that provide us a margin in excess of our floating index-based supply costs under our supply purchase arrangements. In the event that a retail propane distributor desires to purchase propane from us on a fixed price basis, we sometimes enter into fixed price sales agreements with terms of generally up to one year. We manage this commodity price risk by entering into either offsetting physical purchase agreements or financial derivative instruments, with either DCP Midstream, LLC or third parties, that generally match the quantities of propane subject to these fixed price sales agreements. Our ability to help our clients manage their commodity price exposure by offering propane at a fixed price may lead to a larger customer base. Historically, approximately 75% of the gross margin generated by our wholesale propane business is earned in the heating season months of October through April, which corresponds to the general market demand for propane. No individual customer in our Wholesale Propane Logistics segment accounted for more than 10% of our total operating revenues for the years ended December 31, 2006, 2005 and 2004.

*Competition*

The wholesale propane business is highly competitive in the northeastern region of the United States. Our wholesale propane business competitors include major integrated oil and gas and energy companies, and interstate and intrastate pipelines. These competitors include BP PLC, Trammo Gas, SemStream LP and Enterprise Products Partners.

## NGL Logistics Segment

*General*

Our NGL transportation assets consist of our wholly-owned approximately 68-mile Seabreeze intrastate NGL pipeline and our wholly-owned approximately 39-mile Wilbreeze intrastate NGL pipeline, both of which are located in Texas, and a 45% interest in the approximately 317-mile Black Lake interstate NGL pipeline located in Louisiana and Texas. These NGL pipelines transport mixed NGLs from natural gas processing plants to fractionation facilities, a petrochemical plant and an underground NGL storage facility. In aggregate, our NGL transportation business has 73 MBbls/d of capacity and in 2006 average throughput was approximately 25 MBbls/d.

In the markets we serve, our pipelines are the sole pipeline facility transporting NGLs from the supply source. Our pipelines provide transportation services to customers on a fee basis. Therefore, the results of operations for this business are generally dependent upon the volume of product transported and the level of fees charged to customers. The volumes of NGLs transported on our pipelines are dependent on the level of production of NGLs from processing plants connected to our NGL pipelines. When natural gas prices are high relative to NGL prices, it is less profitable to process natural gas because of the higher value of natural gas compared to the value of NGLs and because of the increased cost of separating the mixed NGLs from the natural gas. As a result, we have experienced periods in the past, and will likely experience periods in the future, when higher natural gas prices reduce the volume of NGLs produced at plants connected to our NGL pipelines.

*NGL Pipelines*

***Seabreeze and Wilbreeze Pipelines.*** Our Seabreeze pipeline is an approximately 68-mile private NGL pipeline with current capacity configured at 33 MBbls/d. It is located along the Gulf Coast area of southeastern Texas. For 2006, average throughput on the pipeline was approximately 20 MBbls/d. The Seabreeze pipeline was put into service in 2002 to deliver an NGL mix to the Formosa Point Comfort Chemical Complex from Williams Markham Gas Plant, a large processing plant with processing capacity of approximately 340 MMcf/d located in Matagorda County, Texas; Enterprise Products Matagorda Plant, a large processing plant with capacity of approximately 250 MMcf/d located in Matagorda County, Texas; and TEPPCO Partners, L.P. s South Dean NGL pipeline. The Seabreeze pipeline is the sole NGL pipeline for the two processing plants and is the only delivery point for the South Dean NGL pipeline. This third party NGL pipeline transports NGLs from five natural gas processing plants located in southeastern Texas that have aggregate processing capacity of approximately 1.6 Bcf/d. Three of these processing plants are owned by DCP Midstream, LLC. The seven processing plants that produce NGLs that flow into the Seabreeze pipeline process natural gas produced in southern Texas and offshore in the Gulf of Mexico (Boomvang and Nansen offshore production platforms and the Matagorda Island Production Facility). The Seabreeze pipeline delivers the NGLs it receives from these sources to a fractionator at the Formosa Point Comfort Chemical Complex and the Texas Brine Salt Dome storage facility.

In December 2006, we completed construction of our Wilbreeze pipeline, an approximately 39-mile NGL pipeline to connect a DCP Midstream, LLC gas processing plant to our Seabreeze pipeline. The project is supported by a 10-year NGL product dedication agreement with DCP Midstream, LLC. Current capacity of the Wilbreeze pipeline is configured at 11 MBbls/d. Volumes from DCP Midstream, LLC are expected to be approximately 5 MBbls/d.

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A map illustrating the location of the Seabreeze and Wilbreeze pipelines is set forth below:

Effective December 1, 2005, we entered into a contractual arrangement with a subsidiary of DCP Midstream, LLC that provides that DCP Midstream, LLC will purchase the NGLs that were historically purchased by us, and DCP Midstream, LLC will pay us to transport the NGLs pursuant to a fee-based rate that will be applied to the volumes transported. We have entered into this fee-based contractual arrangement with the objective of generating approximately the same operating income per barrel transported that we realized when we were the purchaser and seller of NGLs. We do not take title to the products transported on the NGL pipelines; rather, the shipper retains title and the associated commodity price risk. DCP Midstream, LLC is the sole shipper on the Seabreeze pipeline under a 17-year transportation agreement expiring in 2022. The Seabreeze pipeline only collects fee-based transportation revenue under this agreement. DCP Midstream, LLC receives its supply of NGLs that it then transports on the Seabreeze pipeline under a 20-year NGL purchase agreement with Williams expiring in 2022 and a 5-year NGL purchase agreement with Enterprise Products Partners expiring in 2007. Under these agreements, Williams and Enterprise Products Partners have each dedicated all of their respective NGL production from these processing plants to DCP Midstream, LLC. The Seabreeze pipeline delivers all of DCP Midstream, LLC s volumes to a fractionator at the Formosa Point Comfort Chemical Complex and the Texas Brine Salt Dome storage facility operated by Underground Services Markam. DCP Midstream, LLC has a 20-year long-term sales agreement with Formosa expiring in 2022. Additionally, DCP Midstream, LLC has a 10-year transportation agreement with TEPPCO Partners, L.P. expiring in 2012 that covers all of the NGL volumes transported on TEPPCO Partners, L.P. s South Dean NGL pipeline for delivery to the Seabreeze pipeline.

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***Black Lake Pipeline.*** We own a 45% interest in Black Lake, which owns an approximately 317-mile Federal Energy Regulatory Commission, or FERC, regulated interstate NGL pipeline with 40 MBbls/d of capacity. For 2006, average throughput on the pipeline at our 45% interest was approximately 5 MBbls/d. A map representing the location of the Black Lake pipeline is set forth below:

The Black Lake pipeline was constructed in 1967 and delivers NGLs from processing plants in northern Louisiana and southeastern Texas to fractionation plants at Mont Belvieu on the Texas Gulf Coast. The Black Lake pipeline receives NGL mix from three natural gas processing plants in northern Louisiana, including our Minden plant, Regency Intrastate Gas, LLC s Dubach processing plant and Chesapeake Energy Corporation s Black Lake processing plant. The Black Lake pipeline is the sole NGL pipeline for all of these natural gas processing plants in northern Louisiana, as well as the Ceritas South Raywood processing plant located in southeastern Texas. The Black Lake pipeline also receives NGL mix from XTO Energy Inc. s Cotton Valley processing plant. In addition, the Black Lake pipeline receives NGL mix from Eagle Rock Energy Partners, LP s Brookeland natural gas processing plant located in southeastern Texas under a five-year dedication agreement, which expires in 2011.

There are currently five significant active shippers on the pipeline, with DCP Midstream, LLC historically being the largest, representing approximately 54% of total throughput in 2006. The Black Lake pipeline generates revenues through a FERC-regulated tariff. The average rate per barrel was $0.94 in 2006.

Black Lake is a partnership that is owned 45% by us, 5% by an affiliate of DCP Midstream, LLC and 50% by BP PLC. BP PLC is the operator of the pipeline. Black Lake is required by its partnership agreement to make monthly cash distributions equal to 100% of its available cash for each month, which is defined generally as receipts plus reductions in cash reserves less disbursements and increases in cash reserves. In anticipation of a pipeline integrity project, Black Lake suspended making monthly cash distributions in December 2004 in order to reserve cash to pay the expenses of this project. We expect that this project will be completed by the end of 2007; however, we anticipate cash distributions will resume prior to the completion of this project.

*Customers*

We had no customers that accounted for more than 10% of our total operating revenues for the year ended December 31, 2006. We had one NGL customer, Formosa Hydrocarbons Company, Inc., that accounted for 17% and 18% of our total operating revenues for the years ended December 31, 2005 and 2004, respectively.

**Safety and Maintenance Regulation**

We are subject to regulation by the United States Department of Transportation, or DOT, under the Accountable Pipeline and Safety Partnership Act of 1996, referred to as the Hazardous Liquid Pipeline Safety Act, and comparable state statutes with respect to design, installation, testing, construction, operation, replacement and management of pipeline facilities. The Hazardous Liquid Pipeline Safety Act covers petroleum and petroleum products and requires any entity that owns or operates pipeline facilities to comply with such regulations, to permit access to and copying of records and to file certain reports and provide information as required by the United States Secretary of Transportation. These regulations include potential fines and penalties for violations. We believe that we are in material compliance with these Hazardous Liquid Pipeline Safety Act regulations.

We are also subject to the Natural Gas Pipeline Safety Act of 1968, or NGPSA, and the Pipeline Safety Improvement Act of 2002. The NGPSA regulates safety requirements in the design, construction, operation and maintenance of gas pipeline facilities while the Pipeline Safety Improvement Act establishes mandatory inspections for all United States oil and natural gas transportation pipelines and some gathering lines in high-consequence areas within 10 years. The DOT has developed regulations implementing the Pipeline Safety Improvement Act that will require pipeline operators to implement integrity management programs, including more frequent inspections and other safety protections in areas where the consequences of potential pipeline accidents pose the greatest risk to people and their property. We currently estimate we will incur costs of approximately $4.1 million between 2007 and 2011 to implement integrity management program testing along certain segments of our natural gas and NGL pipelines. This does not include the costs, if any, of repair, remediation, preventative or mitigating actions that may be determined to be necessary as a result of the testing program. DCP Midstream, LLC has agreed to indemnify us for up to $5.3 million of our pro rata share of any capital contributions required to be made by us to Black Lake associated with any repairs to the Black Lake pipeline that are determined to be necessary as a result of the currently ongoing pipeline integrity testing occurring from 2005 through 2007 and up to $4.0 million of the costs associated with any repairs to the Seabreeze pipeline that are determined to be necessary as a result of pipeline integrity testing that occurred during 2006. Reimbursements related to the Seabreeze pipeline integrity repairs in 2006 were not significant.

States are largely preempted by federal law from regulating pipeline safety but may assume responsibility for enforcing federal intrastate pipeline regulations and inspection of intrastate pipelines. In practice, states vary considerably in their authority and capacity to address pipeline safety. We do not anticipate any significant problems in complying with applicable state laws and regulations in those states in which we or the entities in which we own an interest operate. Our natural gas pipelines have continuous inspection and compliance programs designed to keep the facilities in compliance with pipeline safety and pollution control requirements.

In addition, we are subject to a number of federal and state laws and regulations, including the federal Occupational Safety and Health Act, or OSHA, and comparable state statutes, whose purpose is to protect the health and safety of workers, both generally and within the pipeline industry. In addition, the OSHA hazard communication standard, the Environmental Protection Agency, or EPA, community right-to-know regulations under Title III of the federal Superfund Amendment and Reauthorization Act and comparable state statutes require that information be maintained concerning hazardous materials used or produced in our operations and that this information be provided to employees, state and local government authorities and citizens. We and the entities in which we own an interest are also subject to OSHA Process Safety Management regulations, which are designed to prevent or minimize the consequences of catastrophic releases of toxic, reactive, flammable or explosive chemicals. These regulations apply to any process which involves a chemical at or

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above the specified thresholds, or any process which involves flammable liquid or gas, pressurized tanks, caverns and wells in excess of 10,000 pounds at various locations. Flammable liquids stored in atmospheric tanks below their normal boiling point without the benefit of chilling or refrigeration are exempt. We have an internal program of inspection designed to monitor and enforce compliance with worker safety requirements. We believe that we are in material compliance with all applicable laws and regulations relating to worker health and safety.

**Regulation of Operations**

Regulation of pipeline gathering and transportation services, natural gas sales and transportation of NGLs may affect certain aspects of our business and the market for our products and services.

***Intrastate Natural Gas Pipeline Regulation***

Intrastate natural gas pipeline operations are not generally subject to rate regulation by FERC, but they are subject to regulation by various agencies in the respective states where they are located. However, to the extent that an intrastate pipeline system transports natural gas in interstate commerce, the rates, terms and conditions of such transportation service are subject to FERC jurisdiction under Section 311 of the Natural Gas Policy Act, or NGPA. Under Section 311, intrastate pipelines providing interstate service may avoid jurisdiction that would otherwise apply under the Natural Gas Act of 1938, or NGA. Section 311 regulates, among other things, the provision of transportation services by an intrastate natural gas pipeline on behalf of a local distribution company or an interstate natural gas pipeline. Under Section 311, rates charged for transportation must be fair and equitable, and amounts collected in excess of fair and equitable rates are subject to refund with interest. Additionally, the terms and conditions of service set forth in the intrastate pipeline s Statement of Operating Conditions are subject to FERC approval. Failure to observe the service limitations applicable to transportation services provided under Section 311, failure to comply with the rates approved by FERC for Section 311 service, and failure to comply with the terms and conditions of service established in the pipeline s FERC-approved Statement of Operating Conditions could result in the assertion of federal NGA jurisdiction by FERC and/or the imposition of administrative, civil and criminal penalties. The Pelico system is subject to FERC jurisdiction under Section 311 of the NGPA. The maximum rate that the Pelico system may currently charge is $0.1965 per MMBtu. The Pelico system filed a new Section 311 rate case with FERC on December 1, 2006, pursuant to a FERC order. The rate case included a transportation rate of $0.2617 per MMBtu and no other changes to the Pelico system s terms and conditions of service. The rate case is pending, but we do not expect the outcome to have a material adverse effect on our business.

***Gathering Pipeline Regulation***

Section 1(b) of the NGA exempts natural gas gathering facilities from the jurisdiction of FERC under the NGA. We believe that the natural gas pipelines in our North Louisiana system meet the traditional tests FERC has used to establish a pipeline s status as a gatherer not subject to FERC jurisdiction. However, the distinction between FERC-regulated transmission services and federally unregulated gathering services is the subject of substantial, on-going legislation, so the classification and regulation of our gathering facilities are subject to change based on future determinations by FERC and the courts. State regulation of gathering facilities generally includes various safety, environmental and, in some circumstances, nondiscriminatory take requirements, and in some instances complaint-based rate regulation.

Louisiana s Pipeline Operations Section of the Department of Natural Resources Office of Conservation is generally responsible for regulating intrastate pipelines and gathering facilities in Louisiana, and has authority to review and authorize natural gas transportation transactions, and the construction, acquisition, abandonment and interconnection of physical facilities. Historically, apart from pipeline safety, it has not acted to exercise this jurisdiction respecting gathering facilities.

Our purchasing, gathering and intrastate transportation operations are subject to Louisiana and Arkansas ratable take and common purchaser statutes. The ratable take statutes generally require gatherers to take, without undue discrimination, natural gas production that may be tendered to the gatherer for handling.

Similarly, common purchaser statutes generally require gatherers to purchase without undue discrimination as to source of supply or producer. These statutes are designed to prohibit discrimination in favor of one producer over another producer or one source of supply over another source of supply. These statutes have the effect of restricting our right as an owner of gathering facilities to decide with whom we contract to purchase or transport natural gas.

Natural gas gathering may receive greater regulatory scrutiny at both the state and federal levels now that FERC has taken a more light-handed approach to regulation of the gathering activities of interstate pipeline transmission companies and a number of such companies have transferred gathering facilities to unregulated affiliates. Many of the producing states have adopted some form of complaint-based regulation that generally allows natural gas producers and shippers to file complaints with state regulators in an effort to resolve grievances relating to natural gas gathering access and rate discrimination. Our gathering operations could be adversely affected should they be subject in the future to the application of state or federal regulation of rates and services. Our gathering operations also may be or become subject to safety and operational regulations relating to the design, installation, testing, construction, operation, replacement and management of gathering facilities. Additional rules and legislation pertaining to these matters are considered or adopted from time to time. We cannot predict what effect, if any, such changes might have on our operations, but the industry could be required to incur additional capital expenditures and increased costs depending on future legislative and regulatory changes.

***Sales of Natural Gas***

The price at which we buy and sell natural gas currently is not subject to federal regulation and, for the most part, is not subject to state regulation. Our sales of natural gas are affected by the availability, terms and cost of pipeline transportation. As noted above, the price and terms of access to pipeline transportation are subject to extensive federal and state regulation. The FERC is continually proposing and implementing new rules and regulations affecting those segments of the natural gas industry, most notably interstate natural gas transmission companies that remain subject to the FERC s jurisdiction. These initiatives also may affect the intrastate transportation of natural gas under certain circumstances. The stated purpose of many of these regulatory changes is to promote competition among the various sectors of the natural gas industry, and these initiatives generally reflect more light-handed regulation. We cannot predict the ultimate impact of these regulatory changes to our natural gas marketing operations, and we note that some of the FERC s more recent proposals may adversely affect the availability and reliability of interruptible transportation service on interstate pipelines. We do not believe that we will be affected by any such FERC action materially differently than other natural gas marketers with whom we compete.

***Propane Regulation***

National Fire Protection Association Pamphlets No. 54 and No. 58, which establish rules and procedures governing the safe handling of propane, or comparable regulations, have been adopted as the industry standard in all of the states in which we operate. In some states these laws are administered by state agencies, and in others they are administered on a municipal level. With respect to the transportation of propane by truck, we are subject to regulations promulgated under the Federal Motor Carrier Safety Act. These regulations cover the transportation of hazardous materials and are administered by the DOT. We conduct ongoing training programs to help ensure that our operations are in compliance with applicable regulations. We maintain various permits that are necessary to operate our facilities, some of which may be material to our propane operations. We believe that the procedures currently in effect at all of our facilities for the handling, storage and distribution of propane are consistent with industry standards and are in compliance in all material respects with applicable laws and regulations.

***Interstate NGL Pipeline Regulation***

The Black Lake pipeline is an interstate NGL pipeline subject to FERC regulation. The FERC regulates interstate NGL pipelines under its Oil Pipeline Regulations, the Interstate Commerce Act, or ICA, and the Elkins Act. FERC requires that interstate NGL pipelines file tariffs containing all the rates, charges and other terms for services performed. The ICA requires that tariffs apply to the interstate movement of NGLs, usually meaning that the origin point and destination point are in different states, as is the case with the Black Lake pipeline. Pursuant to the ICA, rates can be challenged at FERC either by protest when they are initially filed or increased, or by complaint at any time they remain on file with FERC.

## Environmental Matters

### *General*

Our operation of pipelines, plants and other facilities for gathering, transporting, processing or storing natural gas, propane, NGLs and other products is subject to stringent and complex federal, state and local laws and regulations governing the discharge of materials into the environment or otherwise relating to the protection of the environment.

As an owner or operator of these facilities, we must comply with these laws and regulations at the federal, state and local levels. These laws and regulations can restrict or impact our business activities in many ways, such as:

- restricting the way we can handle or dispose of our wastes;
- limiting or prohibiting construction activities in sensitive areas such as wetlands, coastal regions or areas inhabited by endangered species;
- requiring remedial action to mitigate pollution conditions caused by our operations or attributable to former operations; and
- enjoining the operations of facilities deemed in non-compliance with permits issued pursuant to such environmental laws and regulations.

Failure to comply with these laws and regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of monetary penalties, the imposition of remedial requirements and the issuance of orders enjoining future operations. Certain environmental statutes impose strict joint and several liability for costs required to clean up and restore sites where hazardous substances have been disposed or otherwise released. Moreover, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of substances or other waste products into the environment.

The trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment, and thus there can be no assurance as to the amount or timing of future expenditures for environmental compliance or remediation, and actual future expenditures may be different from the amounts we currently anticipate. We try to anticipate future regulatory requirements that might be imposed and plan accordingly to remain in compliance with changing environmental laws and regulations and to minimize the costs of such compliance. We also actively participate in industry groups that help formulate recommendations for addressing existing or future regulations.

We do not believe that compliance with federal, state or local environmental laws and regulations will have a material adverse effect on our business, financial position or results of operations. In addition, we believe that the various environmental activities in which we are presently engaged are not expected to materially interrupt or diminish our operational ability to gather, compress, treat, fractionate and process natural gas. We cannot assure you, however, that future events, such as changes in existing laws, the promulgation of new laws, or the development or discovery of new facts or conditions will not cause us to incur significant costs. Below is a discussion of the material environmental laws and regulations that relate to our business. We believe that we are in substantial compliance with all of these environmental laws and regulations.

We or the entities in which we own an interest inspect the pipelines regularly using equipment rented from third party suppliers. Third parties also assist us in interpreting the results of the inspections.

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DCP Midstream, LLC has agreed to indemnify us in an aggregate amount not to exceed $15.0 million for three years from the closing of our initial public offering for environmental noncompliance and remediation liabilities associated with the assets transferred to us and occurring or existing before the closing date of December 7, 2005.

***Air Emissions***

Our operations are subject to the federal Clean Air Act and comparable state laws and regulations. These laws and regulations regulate emissions of air pollutants from various industrial sources, including our processing plants and compressor stations, and also impose various monitoring and reporting requirements. Such laws and regulations may require that we obtain pre-approval for the construction or modification of certain projects or facilities expected to produce or significantly increase air emissions, obtain and strictly comply with air permits containing various emissions and operational limitations, and utilize specific emission control technologies to limit emissions. Our failure to comply with these requirements could subject us to monetary penalties, injunctions, conditions or restrictions on operations, and potentially criminal enforcement actions. We believe that we are in substantial compliance with these requirements. We may be required to incur certain capital expenditures in the future for air pollution control equipment in connection with obtaining and maintaining operating permits and approvals for air emissions. We believe, however, that our operations will not be materially adversely affected by such requirements, and the requirements are not expected to be any more burdensome to us than to any other similarly situated companies.

***Hazardous Substances and Waste***

Our operations are subject to environmental laws and regulations relating to the management and release of hazardous substances or solid wastes (including petroleum hydrocarbons). These laws generally regulate the generation, storage, treatment, transportation and disposal of solid and hazardous waste, and may impose strict, joint and several liability for the investigation and remediation of areas, at a facility where hazardous substances may have been released or disposed. For instance, the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA or the Superfund law, and comparable state laws impose liability, without regard to fault or the legality of the original conduct, on certain classes of persons that contributed to the release of a hazardous substance into the environment. These persons include current and prior owners or operators of the site where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances found at the site. Under CERCLA, these persons may be subject to joint and several strict liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment. Despite the petroleum exclusion of CERCLA Section 101(14) that currently encompasses natural gas, we may nonetheless handle hazardous substances within the meaning of CERCLA, or similar state statutes, in the course of our ordinary operations and, as a result, may be jointly and severally liable under CERCLA for all or part of the costs required to clean up sites at which these hazardous substances have been released into the environment.

We also generate solid wastes, including hazardous wastes, that are subject to the requirements of the Resource Conservation and Recovery Act, or RCRA, and comparable state statutes. While RCRA regulates both solid and hazardous wastes, it imposes strict requirements on the generation, storage, treatment, transportation and disposal of hazardous wastes. Certain petroleum production wastes are excluded from RCRA s hazardous waste regulations. However, it is possible that these wastes, which could include wastes currently generated during our operations, will in the future be designated as hazardous wastes and therefore be subject to more rigorous and costly disposal requirements. Any such changes in the laws and regulations could have a material adverse effect on our maintenance capital expenditures and operating expenses.

We currently own or lease, and our predecessor has in the past owned or leased, properties where hydrocarbons are being or have been handled for many years. Although we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties owned or leased by us or on or under the other locations where these hydrocarbons and wastes have been taken for treatment or disposal. In addition, certain of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under our control. These properties and wastes disposed thereon may be subject to CERCLA, RCRA and analogous state laws. Under these laws, we could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater) or to perform remedial operations to prevent future contamination. We are not currently aware of any facts, events or conditions relating to such requirements that could reasonably have a material impact on our operations or financial condition.

### *Water*

The Federal Water Pollution Control Act of 1972, also referred to as the Clean Water Act, or CWA, and analogous state laws impose restrictions and strict controls regarding the discharge of pollutants into navigable waters. Pursuant to the CWA and analogous state laws, permits must be obtained to discharge pollutants into state and federal waters. The CWA imposes substantial potential civil and criminal penalties for non-compliance. State laws for the control of water pollution also provide varying civil and criminal penalties and liabilities. In addition, some states maintain groundwater protection programs that require permits for discharges or operations that may impact groundwater conditions. The EPA has promulgated regulations that require us to have permits in order to discharge certain storm water run-off. The EPA has entered into agreements with certain states in which we operate whereby the permits are issued and administered by the respective states. These permits may require us to monitor and sample the storm water run-off. We believe that compliance with existing permits and compliance with foreseeable new permit requirements will not have a material adverse effect on our financial condition or results of operations.

## Title to Properties and Rights-of-Way

Our real property falls into two categories: (1) parcels that we own in fee; and (2) parcels in which our interest derives from leases, easements, rights-of-way, permits or licenses from landowners or governmental authorities permitting the use of such land for our operations. Portions of the land on which our plants and other major facilities are located are owned by us in fee title, and we believe that we have satisfactory title to these lands. The remainder of the land on which our plant sites and major facilities are located are held by us pursuant to ground leases between us, as lessee, and the fee owner of the lands, as lessors. We, or our predecessors, have leased these lands for many years without any material challenge known to us relating to the title to the land upon which the assets are located, and we believe that we have satisfactory leasehold estates to such lands. We have no knowledge of any challenge to the underlying fee title of any material lease, easement, right-of-way, permit or license held by us or to our title to any material lease, easement, right-of-way, permit or lease, and we believe that we have satisfactory title to all of our material leases, easements, rights-of-way, permits and licenses.

## Employees

Our operations and activities are managed by our general partner, DCP Midstream GP, LP, which in turn is managed by its general partner, DCP Midstream GP, LLC, or the General Partner, which is wholly-owned by DCP Midstream, LLC. As of December 31, 2006, the General Partner or its affiliates employed nine people directly and approximately 109 people who provided direct support for our operations through DCP Midstream, LLC. None of these employees are covered by collective bargaining agreements. Our General Partner considers its employee relations to be good.

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## General

We make certain filings with the Securities and Exchange Commission, or SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments and exhibits to those reports, available free of charge through our website, *www.dcppartners.com*, as soon as reasonably practicable after they are filed with the SEC. The filings are also available through the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or by calling 1-800-SEC-0330. Also, these filings are available on the internet at *www.sec.gov.* Our annual reports to unitholders, press releases and recent analyst presentations are also available on our website.

## Item 1A. *Risk Factors*

*Limited partner interests are inherently different from capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in similar businesses. You should consider carefully the following risk factors together with all of the other information included in this annual report in evaluating an investment in our common units.*

*If any of the following risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. In that case, we might not be able to pay the minimum quarterly distribution on our common units, the trading price of our common units could decline and you could lose all or part of your investment.*

### Risks Related to Our Business

***We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to make cash distributions to holders of our common units and subordinated units at the initial distribution rate under our cash distribution policy.***

In order to make our cash distributions at our minimum distribution rate of $0.35 per common unit per quarter, or $1.40 per unit per year, we require available cash of approximately $6.3 million per quarter, or $25.3 million per year, based on the common units, Class C units and subordinated units currently outstanding. We may not have sufficient available cash from operating surplus each quarter to enable us to make cash distributions at the minimum distribution rate under our cash distribution policy. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things:

- the fees we charge and the margins we realize for our services;
- the prices of, level of production of, and demand for, natural gas, propane, condensate and NGLs;
- the volume of natural gas we gather, treat, compress, process, transport and sell, the volume of propane and NGLs we transport and sell, and the volumes of propane we store;
- the relationship between natural gas and NGL prices;
- the level of competition from other midstream energy companies;

- the impact of weather conditions on the demand for natural gas and propane;
- the level of our operating and maintenance and general and administrative costs; and
- prevailing economic conditions.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, some of which are beyond our control, including:

- the level of capital expenditures we make;
- the cost and form of payment of acquisitions;

our debt service requirements and other liabilities;

fluctuations in our working capital needs;

our ability to borrow funds and access capital markets;

restrictions contained in our debt agreements; and

the amount of cash reserves established by our general partner.

***The amount of cash we have available for distribution to holders of our common units and subordinated units depends primarily on our cash flow and not solely on profitability.***

You should be aware that the amount of cash we have available for distribution depends primarily upon our cash flow and not solely on profitability, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record losses for financial accounting purposes and may not make cash distributions during periods when we record net earnings for financial accounting purposes.

***Because of the natural decline in production from existing wells, our success depends on our ability to obtain new sources of supplies of natural gas and NGLs, which are dependent on certain factors beyond our control. Any decrease in supplies of natural gas or NGLs could adversely affect our business, operating results and our ability to make cash distributions.***

Our gathering and transportation pipeline systems are connected to or dependent on the level of production from natural gas wells, from which production will naturally decline over time. As a result, our cash flows associated with these wells will also decline over time. In order to maintain or increase throughput levels on our gathering and transportation pipeline systems and NGL pipelines and the asset utilization rates at our natural gas processing plants, we must continually obtain new supplies. The primary factors affecting our ability to obtain new supplies of natural gas and NGLs, and to attract new customers to our assets include the level of successful drilling activity near these systems, and our ability to compete for volumes from successful new wells.

The level of drilling activity is dependent on economic and business factors beyond our control. The primary factor that impacts drilling decisions is natural gas prices. Currently, natural gas prices are high in relation to historical prices. For example, the rolling twelve-month average NYMEX daily settlement price of natural gas futures contracts has increased from $3.22 per MMBtu as of December 31, 2002 to $7.23 per MMBtu as of December 31, 2006. If the high price for natural gas were to decline, the level of drilling activity could decrease. A sustained decline in natural gas prices could result in a decrease in exploration and development activities in the fields served by our gathering and pipeline transportation systems and our natural gas treating and processing plants, which would lead to reduced utilization of these assets. Other factors that impact production decisions include producers capital budgets, the ability of producers to obtain necessary drilling and other governmental permits, access to drilling rigs and regulatory changes. Because of these factors, even if new natural gas reserves are discovered in areas served by our assets, producers may choose not to develop those reserves. If we are not able to obtain new supplies of natural gas to replace the natural decline in volumes from existing wells due to reductions in drilling activity or competition, throughput on our pipelines and the utilization rates of our treating and processing facilities would decline, which could have a material adverse effect on our business, results of operations, financial condition and ability to make cash distributions to you.

***The cash flow from our Natural Gas Services segment is affected by natural gas, NGL and condensate prices, and decreases in these prices could adversely affect our ability to make distributions to holders of our common units and subordinated units.***

Our Natural Gas Services segment is affected by the level of natural gas, NGL and condensate prices. NGL and condensate prices generally fluctuate on a basis that correlates to fluctuations in crude oil prices. In the past, the prices of natural gas and crude oil have been extremely volatile, and we expect this volatility to continue. The markets and prices for natural gas, NGLs, condensate and crude oil depend upon factors beyond

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our control. These factors include supply of and demand for these commodities, which fluctuate with changes in market and economic conditions and other factors, including:

- the impact of weather;
- the level of domestic and offshore production;
- the availability of imported natural gas, NGLs and crude oil;
- actions taken by foreign oil and gas producing nations;
- the availability of local, intrastate and interstate transportation systems;
- the availability and marketing of competitive fuels;
- the impact of energy conservation efforts; and
- the extent of governmental regulation and taxation.

Our primary natural gas gathering and processing arrangements that expose us to commodity price risk are our percentage-of-proceeds arrangements. Under percentage-of-proceeds arrangements, we generally purchase natural gas from producers for an agreed percentage of the proceeds from the sale of residue gas and NGLs resulting from our processing activities, and then sell the resulting residue gas and NGLs at market prices. Under these types of arrangements, our revenues and our cash flows increase or decrease, whichever is applicable, as the price of natural gas and NGLs fluctuate. We have hedged a significant portion of our share of anticipated natural gas and NGL commodity price risk associated with these arrangements through 2010. Additionally, as part of our gathering operations, we recover and sell condensate. The margins we earn from condensate sales are directly correlated with crude oil prices. We have hedged a significant portion of our share of anticipated condensate commodity price risk through 2011. For additional information regarding our hedging activities, please read Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk Hedging Strategies.

***Our hedging activities may have a material adverse effect on our earnings, profitability, cash flows and financial condition.***

We have hedged a significant portion of our expected natural gas and NGL commodity price risk relating to our percentage-of-proceeds gathering and processing contracts through 2010 by entering into derivative financial instruments relating to the future price of natural gas and crude oil. In addition, we have hedged a significant portion of our expected condensate commodity price risk relating to condensate recovered from our gathering operations through 2011, respectively, by entering into derivative financial instruments relating to the future price of crude oil. Additionally, we have entered into interest rate swap agreements to hedge a portion of the variable rate revolving debt under our Credit Agreement to a fixed rate obligation, thereby reducing the exposure to market rate fluctuations. The intent of these arrangements is to reduce the volatility in our cash flows resulting from fluctuations in commodity prices and interest rates.

We will continue to evaluate whether to enter into any new hedging arrangements, but there can be no assurance that we will enter into any new hedging arrangement or that our future hedging arrangements will be on terms similar to our existing hedging arrangements. Also, we may seek in the future to further limit our exposure to changes in natural gas, NGL and condensate commodity prices, and interest rates by using financial derivative instruments and other hedging mechanisms from time to time. To the extent we hedge our commodity price and interest rate risk, we will forego the benefits we would otherwise experience if commodity prices or interest rates were to change in our favor.

Despite our hedging program, we remain exposed to risks associated with fluctuations in commodity prices. The extent of our commodity price risk is related largely to the effectiveness and scope of our hedging activities. For example, the derivative instruments we utilize are based on posted market prices, which may differ significantly from the actual natural gas, NGL and condensate prices that we realize in our operations. Furthermore, we have entered into derivative transactions related to only a portion of the volume of our expected natural gas supply and production of NGLs and condensate from our processing plants; as a result, we will continue to have direct commodity price risk to the unhedged portion. Our actual future production may be significantly higher or lower than we estimate at the time we entered into the derivative transactions for that period. If the actual amount is higher than we estimate, we will have greater commodity price risk than we intended. If the actual amount is lower than the amount that is subject to our derivative financial instruments, we might be forced to satisfy all or a portion of our derivative transactions without the benefit of the cash flow from our sale of the underlying physical commodity, resulting in a reduction of our liquidity.

As a result of these factors, our hedging activities may not be as effective as we intend in reducing the volatility of our cash flows, and in certain circumstances may actually increase the volatility of our earnings and cash flows. In addition, even though our management monitors our hedging activities, these activities can result in substantial losses. Such losses could occur under various circumstances, including if a counterparty does not perform its obligations under the applicable hedging arrangement, the hedging arrangement is imperfect or ineffective, or our hedging policies and procedures are not properly followed or do not work as planned. Our earnings and cash flows could also be subject to increased volatility in the event our derivatives do not continue to qualify for hedge accounting. Also, to the extent we are unable to obtain, or choose not to seek hedge accounting in conjunction with any future acquisitions as a result of the type of commodity risk assumed, or structure of such acquisition, our earnings and cash flows could be subject to increased volatility. We cannot assure you that the steps we take to monitor our hedging activities will detect and prevent violations of our risk management policies and procedures, particularly if deception or other intentional misconduct is involved. For additional information regarding our hedging activities, please read Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk.

***We typically do not obtain independent evaluations of natural gas reserves dedicated to our gathering and pipeline systems; therefore, volumes of natural gas on our systems in the future could be less than we anticipate.***

We typically do not obtain independent evaluations of natural gas reserves connected to our systems due to the unwillingness of producers to provide reserve information as well as the cost of such evaluations. Accordingly, we do not have independent estimates of total reserves dedicated to our systems or the anticipated life of such reserves. If the total reserves or estimated life of the reserves connected to our gathering systems is less than we anticipate and we are unable to secure additional sources of natural gas, then the volumes of natural gas on our systems in the future could be less than we anticipate. A decline in the volumes of natural gas on our systems could have a material adverse effect on our business, results of operations, financial condition and our ability to make cash distributions to you.

***We depend on certain natural gas producer customers for a significant portion of our supply of natural gas and NGLs. The loss of any of these customers could result in a decline in our volumes, revenues and cash available for distribution.***

We rely on certain natural gas producer customers for a significant portion of our natural gas and NGL supply. Our two largest suppliers for the year ended December 31, 2006, Anadarko Petroleum Corporation and ConocoPhillips, accounted for approximately 31% and 29%, respectively, of our 2006 natural gas supply in our Natural Gas Services segment. In our NGL Logistics segment, our largest NGL supplier is DCP Midstream, LLC, who obtains NGLs from various third party producer customers. While some of these customers are subject to long-term contracts, we may be unable to negotiate extensions or replacements of these contracts, on favorable terms, if at all. The loss of all or even a portion of the natural gas and NGL volumes supplied by these customers, as a result of competition or otherwise, could have a material adverse effect on our business, results of operations and financial condition, unless we were able to acquire comparable volumes from other sources.

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***If we are not able to purchase propane from our principal suppliers, our results of operations in our wholesale propane logistics business would be adversely affected.***

Most of our propane purchases are made under supply contracts that have a term of between one to five years and provide various pricing formulas. Our primary suppliers of propane collectively accounted for approximately 48% of the propane volumes we purchased in 2006. In the event that we are unable to purchase propane from our significant suppliers, our failure to obtain alternate sources of supply at competitive prices and on a timely basis would hurt our ability to satisfy customer demand, reduce our revenues and adversely affect our results of operations.

***We may not be able to grow or effectively manage our growth.***

A principal focus of our strategy is to continue to grow the per unit distribution on our units by expanding our business. Our future growth will depend upon a number of factors, some of which we can control and some of which we cannot. These factors include our ability to:

- identify businesses engaged in managing, operating or owning pipelines, processing and storage assets or other midstream assets for acquisitions, joint ventures and construction projects;
- consummate accretive acquisitions or joint ventures and complete construction projects;
- appropriately identify any liabilities associated with any acquired businesses or assets;
- integrate any acquired or constructed businesses or assets successfully with our existing operations and into our operating and financial systems and controls;
- hire, train and retain qualified personnel to manage and operate our growing business; and
- obtain required financing for our existing and new operations.

A deficiency in any of these factors could adversely affect our ability to achieve growth in the level of our cash flows or realize benefits from acquisitions, joint ventures or construction projects. In addition, competition from other buyers could reduce our acquisition opportunities or cause us to pay a higher price than we might otherwise pay. In addition, DCP Midstream, LLC and its affiliates are not restricted from competing with us. DCP Midstream, LLC and its affiliates may acquire, construct or dispose of midstream or other assets in the future without any obligation to offer us the opportunity to purchase or construct those assets.

***We may not successfully balance our purchases and sales of natural gas and propane, which would increase our exposure to commodity price risks.***

We purchase from producers and other customers a substantial amount of the natural gas that flows through our natural gas gathering, processing and transportation systems for resale to third parties, including natural gas marketers and end-users. In addition, in our wholesale propane logistics business, we purchase propane from a variety of sources and resell the propane to retail distributors. We may not be successful in balancing our purchases and sales. A producer or supplier could fail to deliver contracted volumes or deliver in excess of contracted volumes, or a purchaser could purchase less than contracted volumes. Any of these actions could cause our purchases and sales to be unbalanced. While we attempt to balance our purchases and sales, if our purchases and sales are unbalanced, we will face increased exposure to commodity price risks and could have increased volatility in our operating income and cash flows.

***Our NGL pipelines could be adversely affected by any decrease in NGL prices relative to the price of natural gas.***

The profitability of our NGL pipelines is dependent on the level of production of NGLs from processing plants connected to our NGL pipelines. When natural gas prices are high relative to NGL prices, it is less profitable to process natural gas because of the higher value of natural gas compared to the value of NGLs and because of the increased cost (principally that of natural gas as a feedstock and fuel) of separating the

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mixed NGLs from the natural gas. As a result, we may experience periods in which higher natural gas prices reduce the volume of natural gas processed at plants connected to our NGL pipelines, which would reduce the volumes and gross margins attributable to our NGL pipelines.

***If third party pipelines and other facilities interconnected to our natural gas and NGL pipelines and facilities become unavailable to transport or produce natural gas and NGLs, our revenues and cash available for distribution could be adversely affected.***

We depend upon third party pipelines and other facilities that provide delivery options to and from our pipelines and facilities for the benefit of our customers. For example, the volumes of NGLs that are transported on our Seabreeze pipeline and the Black Lake pipeline are dependent upon a number of processing plants and NGL pipelines owned and operated by DCP Midstream, LLC and other third parties, including Williams Markham Gas Plant, Enterprise Products Matagorda Plant, TEPPCO Partners, L.P. s South Dean NGL pipeline, Regency Intrastate Gas, LLC s Dubach processing plant and Chesapeake Energy Corporation s Black Lake processing plant. In addition, our Pelico pipeline system is interconnected to several third party intrastate and interstate pipelines, including pipelines owned by Southern Natural Gas Company, Texas Gas Transmission, LLC, CenterPoint Energy Mississippi River Transmission Corporation, Texas Eastern Transmission LP, CenterPoint Energy Gas Transmission Company, Crosstex LIG, LLC, Gulf South Pipeline Company, Tennessee Natural Gas Company and Regency Intrastate Gas, LLC. Since we do not own or operate any of these pipelines or other facilities, their continuing operation is not within our control. If any of these third party pipelines and other facilities become unavailable to transport or produce natural gas and NGLs, our revenues and cash available for distribution could be adversely affected.

***Our wholesale propane logistics business would be adversely affected if service at our terminals were interrupted.***

Historically, a substantial portion of the propane we purchase to support our wholesale propane logistics business is delivered to us at our rail terminals or is delivered by ship to us at our leased marine terminal in Providence, Rhode Island. We also rely on shipments of propane via TEPPCO Partners, LP s pipeline to open access terminals. Any significant interruption in the service at these terminals would adversely affect our ability to obtain propane, which could reduce the amount of propane that we distribute, our revenues, or cash available for distribution.

***Our industry is highly competitive, and increased competitive pressure could adversely affect our business and operating results.***

We compete with similar enterprises in our respective areas of operation. Some of our competitors are large oil, natural gas and petrochemical companies that have greater financial resources and access to supplies of natural gas, propane and NGLs than we do. Some of these competitors may expand or construct gathering, processing and transportation systems that would create additional competition for the services we provide to our customers. In addition, our customers who are significant producers of natural gas may develop their own gathering, processing and transportation systems in lieu of using ours. Likewise, our customers who produce NGLs may develop their own systems to transport NGLs in lieu of using ours. Additionally, our wholesale propane distribution customers may develop their own sources of propane supply in lieu of seeking supplies from us. Our ability to renew or replace existing contracts with our customers at rates sufficient to maintain current revenues and cash flows could be adversely affected by the activities of our competitors and our customers. All of these competitive pressures could have a material adverse effect on our business, results of operations, financial condition and ability to make cash distributions.

***Since weather conditions may adversely affect the overall demand for propane, our wholesale propane business is vulnerable to, and could be adversely affected by, warm winters.***

Weather conditions could have an impact on the demand for wholesale propane because the end-users of propane depend on propane principally for heating purposes. As a result, warm weather conditions could adversely impact the demand for and prices of propane. Actual weather conditions can substantially change from one year to the next. Furthermore, since our wholesale propane logistics business is located almost solely in the northeast, warmer than normal temperatures in the northeast can decrease the total volume of propane we sell. Such conditions may also cause downward pressure on the price of propane, which could result in a lower of cost or market adjustment to the value of our inventory. Consequently, our operating results may vary due to actual changes in temperature.

***Competition from alternative energy sources and energy efficiency and technological advances may reduce the demand for propane, which could reduce the volumes of propane that we distribute.***

Competition from alternative energy sources, including natural gas and electricity, has been increasing as a result of reduced regulation of many utilities, including natural gas and electricity. In addition, propane competes with heating oil primarily in residential applications. Propane is generally not competitive with natural gas in areas where natural gas pipelines already exist because natural gas is a less expensive source of energy than propane. The gradual expansion of natural gas distribution systems and availability of natural gas in the northeast, which has historically depended upon propane, could reduce the demand for propane, which could adversely affect the volumes of propane that we distribute. In addition, stricter conservation measures in the future or technological advances in heating, conservation, energy generation or other devices could reduce the demand for propane in the future, which could adversely affect the volumes of propane that we distribute.

***A change in the jurisdictional characterization of some of our assets by federal, state or local regulatory agencies or a change in policy by those agencies may result in increased regulation of our assets, which may cause our revenues to decline and operating expenses to increase.***

Our natural gas gathering and intrastate transportation operations are generally exempt from FERC regulation under the NGA, except for Section 311 as discussed below, but FERC regulation still affects these businesses and the markets for products derived from these businesses. FERC s policies and practices across the range of its oil and natural gas regulatory activities, including, for example, its policies on open access transportation, ratemaking, capacity release and market center promotion, indirectly affect intrastate markets. In recent years, FERC has pursued pro-competitive policies in its regulation of interstate oil and natural gas pipelines. However, we cannot assure you that FERC will continue this approach as it considers matters such as pipeline rates and rules and policies that may affect rights of access to oil and natural gas transportation capacity. In addition, the distinction between FERC-regulated transmission services and federally unregulated gathering services has been the subject of regular litigation, so, in such a circumstance, the classification and regulation of some of our gathering facilities and intrastate transportation pipelines may be subject to change based on future determinations by FERC and the courts.

In addition, the rates, terms and conditions of some of the transportation services we provide on our Pelico pipeline system is subject to FERC regulation under Section 311 of the NGPA. Under Section 311, rates charged for transportation must be fair and equitable, and amounts collected in excess of fair and equitable rates are subject to refund with interest. The Pelico system is currently charging rates for its Section 311 transportation services that were deemed fair and equitable under a rate settlement with FERC. The Pelico system made a new rate filing on December 1, 2006, that proposed a transportation rate of $0.2617 per MMBtu, and no changes to the terms and conditions of the Pelico system s Section 311 transportation services. The Black Lake pipeline system is an interstate transporter of NGLs and is subject to FERC jurisdiction under the Interstate Commerce Act and the Elkins Act. For more information regarding regulation of our operations, please read Business Regulation of Operations.

Other state and local regulations also affect our business. Our non-proprietary gathering lines are subject to ratable take and common purchaser statutes in Louisiana. Ratable take statutes generally require gatherers to take, without undue discrimination, oil or natural gas production that may be tendered to the gatherer for handling. Similarly, common purchaser statutes generally require gatherers to purchase without undue discrimination as to source of supply or producer. These statutes restrict our right as an owner of gathering facilities to decide with whom we contract to purchase or transport oil or natural gas. Federal law leaves any economic regulation of natural gas gathering to the states. The states in which we operate have adopted complaint-based regulation of oil and natural gas gathering activities, which allows oil and natural gas producers and shippers to file complaints with state regulators in an effort to resolve grievances relating to oil and natural gas gathering access and rate discrimination. Other state regulations may not directly regulate our business, but may nonetheless affect the availability of natural gas for purchase, processing and sale, including state regulation of production rates and maximum daily production allowable from gas wells. While our proprietary gathering lines currently are subject to limited state regulation, there is a risk that state laws will be changed, which may give producers a stronger basis to challenge proprietary status of a line, or the rates, terms and conditions of a gathering line providing transportation service. Please read Business Regulation of Operations.

***We may incur significant costs and liabilities in the future resulting from a failure to comply with new or existing environmental regulations or an accidental release of hazardous substances or hydrocarbons into the environment.***

Our operations are subject to stringent and complex federal, state and local environmental laws and regulations. These include, for example, (1) the federal Clean Air Act and comparable state laws and regulations that impose obligations related to air emissions; (2) the federal Resource Conservation and Recovery Act, or RCRA, and comparable state laws that impose requirements for the discharge of waste from our facilities; and (3) the Comprehensive Environmental Response Compensation and Liability Act of 1980, or CERCLA, also known as Superfund, and comparable state laws that regulate the cleanup of hazardous substances that may have been released at properties currently or previously owned or operated by us or locations to which we have sent waste for disposal. Failure to comply with these laws and regulations or newly adopted laws or regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of monetary penalties, the imposition of remedial requirements, and the issuance of orders enjoining future operations. Certain environmental regulations, including CERCLA and analogous state laws and regulations, impose strict, joint and several liability for costs required to clean up and restore sites where hazardous substances or hydrocarbons have been disposed or otherwise released. Moreover, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances, hydrocarbons or other waste products into the environment.

There is inherent risk of the incurrence of environmental costs and liabilities in our business due to our handling of natural gas and other petroleum products, air emissions related to our operations, and historical industry operations and waste disposal practices. For example, an accidental release from one of our facilities could subject us to substantial liabilities arising from environmental cleanup and restoration costs, claims made by neighboring landowners and other third parties for personal injury and property damage and fines or penalties for related violations of environmental laws or regulations. Moreover, the possibility exists that stricter laws, regulations or enforcement policies could significantly increase our compliance costs and the cost of any remediation that may become necessary. We may not be able to recover these costs from insurance or from indemnification from DCP Midstream, LLC. Please read Business Environmental Matters.

***We may incur significant costs and liabilities resulting from pipeline integrity programs and related repairs.***

Pursuant to the Pipeline Safety Improvement Act of 2002, the United States Department of Transportation, or DOT, has adopted regulations requiring pipeline operators to develop integrity management programs for transportation pipelines located where a leak or rupture could do the most harm in high consequence areas. The regulations require operators to:

- perform ongoing assessments of pipeline integrity;
- identify and characterize applicable threats to pipeline segments that could impact a high consequence area;
- improve data collection, integration and analysis;

repair and remediate the pipeline as necessary; and

implement preventive and mitigating actions.

We currently estimate that we will incur costs of approximately $4.1 million between 2007 and 2011 to implement pipeline integrity management program testing along certain segments of our natural gas and NGL pipelines. This does not include the costs, if any, of any repair, remediation, preventative or mitigating actions that may be determined to be necessary as a result of the testing program, which costs could be substantial. While DCP Midstream, LLC has agreed to indemnify us for our pro rata share of any capital contributions associated with certain repair costs relating to the Black Lake pipeline resulting from such testing program, the actual costs of making such repairs, including any lost cash flows resulting from shutting down our pipelines during the pendency of such repairs, could substantially exceed the amount of such indemnity.

We currently transport all of the NGLs produced at our Minden plant on the Black Lake pipeline. According, in the event that the Black Lake pipeline becomes inoperable due to any necessary repairs resulting from our integrity testing program or for any other reason for any significant period of time, we would need to transport NGLs by other means. The Minden plant has an existing alternate pipeline connection that would permit the transportation of NGLs to a local fractionator for processing and distribution with sufficient pipeline takeaway and fractionation capacity to handle all of the Minden plant s NGL production. We do not, however, currently have commercial arrangements in place with the alternative pipeline. While we believe we could establish alternate transportation arrangements, there can be no assurance that we will in fact be able to enter into such arrangements.

***Our construction of new assets may not result in revenue increases and is subject to regulatory, environmental, political, legal and economic risks, which could adversely affect our results of operations and financial condition.***

One of the ways we intend to grow our business is through the construction of new midstream assets. The construction of additions or modifications to our existing systems or propane terminals, and the construction of new midstream assets involves numerous regulatory, environmental, political and legal uncertainties beyond our control and may require the expenditure of significant amounts of capital. If we undertake these projects, they may not be completed on schedule or at the budgeted cost, or at all. Moreover, our revenues may not increase immediately upon the expenditure of funds on a particular project. For instance, if we construct a new pipeline or terminal, the construction may occur over an extended period of time, and we will not receive any material increases in revenues until the project is completed. Moreover, we may construct facilities to capture anticipated future growth in production in a region in which such growth does not materialize. Since we are not engaged in the exploration for and development of natural gas and oil reserves, we often do not have access to third-party estimates of potential reserves in an area prior to constructing facilities in such area. To the extent we rely on estimates of future production in our decision to construct additions to our systems, such estimates may prove to be inaccurate because there are numerous uncertainties inherent in estimating quantities of future production. As a result, new facilities may not be able to attract enough throughput to achieve our expected investment return, which could adversely affect our results of operations and financial condition. In addition, the construction of additions to our existing gathering, transportation and propane terminal assets may require us to obtain new rights-of-way prior to constructing new facilities. We may be unable to obtain such rights-of-way to connect new natural gas supplies to our existing gathering lines, expand our network of propane terminals, or capitalize on other attractive expansion opportunities. Additionally, it may become more expensive for us to obtain new rights-of-way or to renew existing rights-of-way. In addition, the construction of additional propane terminals may require greater capital investment if the commodity prices of certain supplies such as steel increase. If the cost of renewing or obtaining new rights-of-way increases, or the cost of constructing new facilities is impacted by certain commodity prices, our cash flows could be adversely affected.

***If we do not make acquisitions on economically acceptable terms, our future growth will be limited.***

Our ability to grow depends, in part, on our ability to make acquisitions that result in an increase in the cash generated from operations per unit. If we are unable to make these accretive acquisitions either because we are: (1) unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with them; (2) unable to obtain financing for these acquisitions on economically acceptable terms; or (3) outbid by competitors, then our future growth and ability to increase distributions will be limited. Furthermore, even if we do make acquisitions that we believe will be accretive, these acquisitions may nevertheless result in a decrease in the cash generated from operations per unit. Additionally, net assets contributed by DCP Midstream, LLC represent a transfer of net assets between entities under common control, and are recognized at DCP Midstream, LLC s basis in the net assets transferred. The amount of the purchase price in excess of DCP Midstream, LLC s basis in the net assets, if any, is recognized as a reduction to partners equity. Contributions from DCP Midstream, LLC may significantly increase our debt to capitalization ratios.

Any acquisition involves potential risks, including, among other things:

- mistaken assumptions about volumes, revenues and costs, including synergies;
- an inability to integrate successfully the businesses we acquire;
- the assumption of unknown liabilities;
- limitations on rights to indemnity from the seller;
- mistaken assumptions about the overall costs of equity or debt;
- the diversion of management s and employees attention from other business concerns;
- unforeseen difficulties operating in new product areas or new geographic areas; and
- customer or key employee losses at the acquired businesses.

If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and you will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of these funds and other resources.

Our acquisition strategy is based, in part, on our expectation of ongoing divestitures of energy assets by industry participants. A material decrease in such divestitures would limit our opportunities for future acquisitions and could adversely affect our operations and cash flows available for distribution to our unitholders.

***We do not own all of the land on which our pipelines, facilities and rail terminals are located, which could disrupt our operations.***

We do not own all of the land on which our pipelines, facilities and rail terminals have been constructed, and we are therefore subject to the possibility of more onerous terms and/or increased costs to retain necessary land use if we do not have valid rights of way or if such rights of way lapse or terminate. We obtain the rights to construct and operate our pipelines, surface sites and rail terminals on land owned by third parties and governmental agencies for a specific period of time. Our loss of these rights, through our inability to renew right-of-way contracts or otherwise, could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to you.

***Our business involves many hazards and operational risks, some of which may not be fully covered by insurance. If a significant accident or event occurs that is not fully insured, our operations and financial results could be adversely affected.***

Our operations are subject to many hazards inherent in the gathering, compressing, treating, processing and transporting of natural gas, propane and NGLs, and the storage of propane, including:

- damage to pipelines, plants and terminals, related equipment and surrounding properties caused by hurricanes, tornadoes, floods, fires and other natural disasters and acts of terrorism;
- inadvertent damage from construction, farm and utility equipment;
- leaks of natural gas, propane, NGLs and other hydrocarbons or losses of natural gas, propane or NGLs as a result of the malfunction of equipment or facilities;

contaminants in the pipeline system;

fires and explosions; and

other hazards that could also result in personal injury and loss of life, pollution and suspension of operations.

These risks could result in substantial losses due to personal injury and/or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage and may result in curtailment or suspension of our related operations. A natural disaster or other hazard affecting the areas in which we operate could have a material adverse effect on our operations. We are not fully insured against all risks inherent to our business. In accordance with typical industry practice, we do not have any property insurance on any of our underground pipeline systems that would cover damage to the pipelines. We are not insured against all environmental accidents that might occur, which may include toxic tort claims, other than those considered to be sudden and accidental. If a significant accident or event occurs that is not fully insured, it could adversely affect our operations and financial condition. In addition, we may not be able to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of market conditions, premiums and deductibles for certain of our insurance policies have increased substantially, and could escalate further. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage.

***Our debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.***

As of December 7, 2005, we entered into a credit facility, consisting of a $100.1 million collateralized term loan facility and a $250.0 million revolving credit facility for working capital and other general partnership purposes. We had outstanding balances of $100.0 million under the term loan facility and $168.0 million under the revolving credit facility as of December 31, 2006. The term loan facility maximum borrowing is $100.1 million, and once repaid such amount may not be reborrowed. However, once a portion of the term loan is repaid, the revolving credit facility will increase ratably. We continue to have the ability to incur additional debt, subject to limitations in our credit facility. Our level of debt could have important consequences to us, including the following:

our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

we will need a portion of our cash flow to make interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;

our debt level will make us more vulnerable to competitive pressures or a downturn in our business or the economy generally; and

our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to obtain new debt funding or service our existing debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. In addition, our ability to service debt under our revolving credit facility will depend on market interest rates, since we anticipate that the interest rates applicable to our borrowings will fluctuate with movements in interest rate markets. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital. We may not be able to effect any of these actions on satisfactory terms, or at all. During 2006 we entered into interest rate swap agreements to hedge the variable interest rate on $125.0 million of the balance outstanding under our credit agreement. For additional information regarding our hedging activities, please read

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Management s Discussion and Analysis of financial Condition and Results of Operations Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.

***Restrictions in our credit facility will limit our ability to make distributions to you and may limit our ability to capitalize on acquisitions and other business opportunities.***

Our credit facility contains covenants limiting our ability to make distributions, incur indebtedness, grant liens, make acquisitions, investments or dispositions and engage in transactions with affiliates. Furthermore, our credit facility contains covenants requiring us to maintain certain financial ratios and tests. Any subsequent replacement of our credit facility or any new indebtedness could have similar or greater restrictions. Please read Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Requirements.

***Increases in interest rates could adversely impact our unit price and our ability to issue additional equity to make acquisitions, incur debt or for other purposes.***

Interest rates on future credit facilities and debt offerings could be higher than current levels, causing our financing costs to increase accordingly. As with other yield-oriented securities, our unit price is impacted by the level of our cash distributions and implied distribution yield. The distribution yield is often used by investors to compare and rank related yield-oriented securities for investment decision-making purposes. Therefore, changes in interest rates, either positive or negative, may affect the yield requirements of investors who invest in our units, and a rising interest rate environment could have an adverse impact on our unit price and our ability to issue additional equity to make acquisitions, incur debt or for other purposes.

***Due to our lack of industry and geographic diversification, adverse developments in our midstream operations or operating areas would reduce our ability to make distributions to our unitholders.***

We rely on the revenues generated from our midstream energy businesses, and as a result, our financial condition depends upon prices of, and continued demand for, natural gas, propane, condensate and NGLs. Due to our lack of diversification in industry type and location, an adverse development in one of these businesses or operating areas would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets.

***We are exposed to the credit risks of our key producer customers and propane purchasers, and any material nonpayment or nonperformance by our key producer customers or our propane purchasers could reduce our ability to make distributions to our unitholders.***

We are subject to risks of loss resulting from nonpayment or nonperformance by our producer customers and propane purchasers. Any material nonpayment or nonperformance by our key producer customers or our propane purchasers could reduce our ability to make distributions to our unitholders. Furthermore, some of our producer customers or our propane purchasers may be highly leveraged and subject to their own operating and regulatory risks, which could increase the risk that they may default on their obligations to us.

***Terrorist attacks, and the threat of terrorist attacks, have resulted in increased costs to our business. Continued hostilities in the Middle East or other sustained military campaigns may adversely impact our results of operations.***

The long-term impact of terrorist attacks, such as the attacks that occurred on September 11, 2001 or the attacks in London, and the threat of future terrorist attacks on our industry in general, and on us in particular, is not known at this time. Increased security measures taken by us as a precaution against possible terrorist attacks have resulted in increased costs to our business. Uncertainty surrounding continued hostilities in the Middle East or other sustained military campaigns may affect our operations in unpredictable ways, including disruptions of crude oil supplies, propane shipments or storage facilities, and markets for refined products, and the possibility that infrastructure facilities could be direct targets of, or indirect casualties of, an act of terror.

Changes in the insurance markets attributable to terrorist attacks may make certain types of insurance more difficult for us to obtain. Moreover, the insurance that may be available to us may be significantly more expensive than our existing insurance coverage. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital.

**Risks Inherent in an Investment in Us**

***DCP Midstream, LLC controls our general partner, which has sole responsibility for conducting our business and managing our operations. DCP Midstream, LLC has conflicts of interest, which may permit it to favor its own interests to your detriment.***

DCP Midstream, LLC owns and controls our general partner. Some of our general partner s directors, and some of its executive officers, are directors or officers of DCP Midstream, LLC or its parents. Therefore, conflicts of interest may arise between DCP Midstream, LLC and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. In resolving these conflicts of interest, our general partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. These conflicts include, among others, the following situations:

- neither our partnership agreement nor any other agreement requires DCP Midstream, LLC to pursue a business strategy that favors us. DCP Midstream, LLC s directors and officers have a fiduciary duty to make these decisions in the best interests of the owners of DCP Midstream, LLC, which may be contrary to our interests;

- our general partner is allowed to take into account the interests of parties other than us, such as DCP Midstream, LLC and its affiliates, in resolving conflicts of interest;

- DCP Midstream, LLC and its affiliates, including Spectra Energy and ConocoPhillips, are not limited in their ability to compete with us. Please read DCP Midstream, LLC and its affiliates are not limited in their ability to compete with us below;

- our general partner may make a determination to receive a quantity of our Class B units in exchange for resetting the target distribution levels related to its incentive distribution rights without the approval of the special committee of our general partner or our unitholders;

- some officers of DCP Midstream, LLC who provide services to us also will devote significant time to the business of DCP Midstream, LLC, and will be compensated by DCP Midstream, LLC for the services rendered to it;

- our general partner has limited its liability and reduced its fiduciary duties, and has also restricted the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty;

- our general partner determines the amount and timing of asset purchases and sales, borrowings, issuance of additional partnership securities and reserves, each of which can affect the amount of cash that is distributed to unitholders;

- our general partner determines the amount and timing of any capital expenditures and whether a capital expenditure is a maintenance capital expenditure, which reduces operating surplus, or an expansion capital expenditure, which does not reduce operating surplus. This determination can affect the amount of cash that is distributed to our unitholders and the ability of the subordinated units to convert to common units;

our general partner determines which costs incurred by it and its affiliates are reimbursable by us;

our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf;

our general partner intends to limit its liability regarding our contractual and other obligations and, in some circumstances, is entitled to be indemnified by us;

our general partner may exercise its limited right to call and purchase common units if it and its affiliates own more than 80% of the common units;

our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates; and

our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

***DCP Midstream, LLC and its affiliates are not limited in their ability to compete with us, which could cause conflicts of interest and limit our ability to acquire additional assets or businesses, which in turn could adversely affect our results of operations and cash available for distribution to our unitholders.***

Neither our partnership agreement nor the Omnibus Agreement between us, DCP Midstream, LLC and others will prohibit DCP Midstream, LLC and its affiliates, including Spectra Energy and ConocoPhillips, from owning assets or engaging in businesses that compete directly or indirectly with us. In addition, DCP Midstream, LLC and its affiliates, including Spectra Energy and ConocoPhillips, may acquire, construct or dispose of additional midstream or other assets in the future, without any obligation to offer us the opportunity to purchase or construct any of those assets. Each of these entities is a large, established participant in the midstream energy business, and each has significantly greater resources and experience than we have, which factors may make it more difficult for us to compete with these entities with respect to commercial activities as well as for acquisition candidates. As a result, competition from these entities could adversely impact our results of operations and cash available for distribution.

***Cost reimbursements due to our general partner and its affiliates for services provided, which will be determined by our general partner, will be substantial and will reduce our cash available for distribution to you.***

Pursuant to the Omnibus Agreement, as amended, we entered into with DCP Midstream, LLC, our general partner and others, DCP Midstream, LLC will receive reimbursement for the payment of operating expenses related to our operations and for the provision of various general and administrative services for our benefit. Payments for these services will be substantial and will reduce the amount of cash available for distribution to unitholders. Please read Certain Relationships and Related Transactions Omnibus Agreement. In addition, under Delaware partnership law, our general partner has unlimited liability for our obligations, such as our debts and environmental liabilities, except for our contractual obligations that are expressly made without recourse to our general partner. To the extent our general partner incurs obligations on our behalf, we are obligated to reimburse or indemnify it. If we are unable or unwilling to reimburse or indemnify our general partner, our general partner may take actions to cause us to make payments of these obligations and liabilities. Any such payments could reduce the amount of cash otherwise available for distribution to our unitholders.

***Our partnership agreement limits our general partner s fiduciary duties to holders of our common units and subordinated units.***

Although our general partner has a fiduciary duty to manage us in a manner beneficial to us and our unitholders, the directors and officers of our general partner have a fiduciary duty to manage our general partner in a manner beneficial to its owner, DCP Midstream, LLC. Our partnership agreement contains provisions that reduce the standards to which our general partner would otherwise be held by state fiduciary duty laws. For example, our partnership agreement permits our general partner to make a number of decisions either in its individual capacity, as opposed to in its capacity as our general partner or otherwise free of fiduciary duties to us and our unitholders. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Examples include:

the exercise of its right to reset the target distribution levels of its incentive distribution rights at higher levels and receive, in connection with this reset, a number of Class B units that are convertible at any time following the first anniversary of the issuance of these Class B units into common units;

its limited call right;

its voting rights with respect to the units it owns;

its registration rights; and

its determination whether or not to consent to any merger or consolidation of the partnership or amendment to the partnership agreement.

By purchasing a common unit, a common unitholder will agree to become bound by the provisions in the partnership agreement, including the provisions discussed above.

***Our partnership agreement restricts the remedies available to holders of our common units and subordinated units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.***

Our partnership agreement contains provisions that restrict the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty. For example, our partnership agreement:

provides that our general partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as it acted in good faith, meaning it believed the decision was in the best interests of our partnership;

generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the special committee of the board of directors of our general partner and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or must be fair and reasonable to us, as determined by our general partner in good faith and that, in determining whether a transaction or resolution is fair and reasonable, our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us; and

provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that the general partner or those other persons acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal.

***Our general partner may elect to cause us to issue Class B units to it in connection with a resetting of the target distribution levels related to our general partner s incentive distribution rights without the approval of the special committee of our general partner or holders of our common units and subordinated units. This may result in lower distributions to holders of our common units in certain situations.***

Our general partner has the right, at a time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48%) for each of the prior four consecutive fiscal quarters, to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the reset minimum quarterly distribution ) and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution amount.

In connection with resetting these target distribution levels, our general partner will be entitled to receive a number of Class B units. The Class B units will be entitled to the same cash distributions per unit as our common units and will be convertible into an equal number of common units. The number of Class B units to be issued will be equal to that number of common units whose aggregate quarterly cash distributions equaled the average of the distributions to our general partner on the incentive distribution rights in the prior two quarters. We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distributions per common unit without such conversion; however, it is possible that our general partner could exercise this reset election at a time when it is experiencing, or may be expected to experience, declines in the cash distributions it receives related to its incentive distribution rights and may therefore desire to be issued our Class B units, which are entitled to receive cash distributions from us on the same priority as our common units, rather than retain the right to receive incentive distributions based on the initial target distribution levels. As a result, a reset election may cause our common unitholders to experience dilution in the amount of cash distributions that they would have otherwise received had we not issued new Class B units to our general partner in connection with resetting the target distribution levels related to our general partner incentive distribution rights.

***Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.***

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management s decisions regarding our business. Unitholders will not elect our general partner or its board of directors, and will have no right to elect our general partner or its board of directors on an annual or other continuing basis. The board of directors of DCP Midstream GP, LLC, or the General Partner, will be chosen by the members of the General Partner. Furthermore, if the unitholders were dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

***Even if holders of our common units are dissatisfied, they may be unable to remove our general partner without its consent.***

The unitholders may be unable to remove our general partner without its consent because our general partner and its affiliates own sufficient units to be able to prevent its removal. The vote of the holders of at least 662/3% of all outstanding units voting together as a single class is required to remove the general partner. Our general partner and its affiliates own an approximate 43% of our aggregate outstanding common, Class C and subordinated units. Also, if our general partner is removed without cause during the subordination period and units held by our general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically convert into common units and any existing arrearages on our common units will be extinguished. A removal of our general partner under these circumstances would adversely affect our common units by prematurely eliminating their distribution and liquidation preference over our subordinated units, which would otherwise have continued until we had met certain distribution and performance tests. Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding the general partner liable for actual fraud or willful or wanton misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor management of the business, so the removal of the general partner because of the unitholder s dissatisfaction with our general partner s performance in managing our partnership will most likely result in the termination of the subordination period and conversion of all subordinated units to common units.

***Our partnership agreement restricts the voting rights of unitholders owning 20% or more of our common units.***

Unitholders voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than our general partner, its affiliates, their transferees and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot vote on any matter. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders ability to influence the manner or direction of management.

***Control of our general partner may be transferred to a third party without unitholder consent.***

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, our partnership agreement does not restrict the ability of the owners of our general partner or the General Partner from transferring all or a portion of their respective ownership interest in our general partner or the General Partner to a third party. The new owners of our general partner or the General Partner would then be in a position to replace the board of directors and officers of the General Partner with its own choices and thereby influence the decisions taken by the board of directors and officers.

***We may issue additional units without your approval, which would dilute your existing ownership interests.***

Our partnership agreement does not limit the number of additional limited partner interests that we may issue at any time without the approval of our unitholders. The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- our unitholders proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;
- the ratio of taxable income to distributions may increase;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

***Affiliates of our general partner may sell common units in the public markets, which sales could have an adverse impact on the trading price of the common units.***

DCP Midstream, LLC and its affiliates hold an aggregate of 7,143 common units, 200,312 Class C units, and 7,142,857 subordinated units. The Class C units will automatically convert to common units once the Class C units represent less than 1% of the total outstanding limited partner units. All of the subordinated units will convert into common units at the end of the subordination period, as set forth in our partnership agreement, and some may convert earlier. The sale of these units in the public markets could have an adverse impact on the price of the common units or on any trading market that may develop.

***Our general partner has a limited call right that may require you to sell your units at an undesirable time or price.***

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon a sale of your units. Our general partner and its affiliates own less than 1% of our outstanding common units. At the expiration of the subordination period, assuming no additional issuances of common units, our general partner and its affiliates will own approximately 43% of our outstanding common units.

***The liability of holders of limited partner interests may not be limited if a court finds that unitholder action constitutes control of our business.***

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Our partnership is organized under Delaware law and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business. Holders of limited partner interests could be liable for any and all of our obligations as if such holder were a general partner if:

- a court or government agency determined that we were conducting business in a state but had not complied with that particular state s partnership statute; or

- the right of holders of limited partner interests to act with other unitholders to remove or replace the general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitute control of our business.

***Unitholders may have liability to repay distributions that were wrongfully distributed to them.***

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Substituted limited partners are liable for the obligations of the assignor to make contributions to the partnership that are known to the substituted limited partner at the time it became a limited partner and for unknown obligations if the liabilities could be determined from the partnership agreement. Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

## Tax Risks to Common Unitholders

***Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to entity-level taxation by individual states. If the Internal Revenue Service treats us as a corporation or we become subject to entity-level taxation for state tax purposes, it would substantially reduce the amount of cash available for distribution to our unitholders.***

The anticipated after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the Internal Revenue Service, which we refer to as the IRS, on this or any other tax matter affecting us.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our income at the corporate tax rate, which is currently a maximum of 35% and would likely pay state income tax at varying rates. Distributions to the unitholder would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to them. Because a tax would be imposed upon us as a corporation, our cash available for distribution to the unitholder would be substantially reduced. Therefore, our treatment as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to the unitholders, likely causing a substantial reduction in the value of our common units.

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Current law may change so as to cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. In addition, because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. If any of these states were to impose a tax on us, the cash available for distribution to the unitholder would be reduced. The partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution levels will be adjusted to reflect the impact of that law on us.

***An IRS contest of the federal income tax positions we take may adversely affect the market for our common units, and the cost of any IRS contest will reduce our cash available for distribution to our unitholders.***

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. In addition, our costs of any contest with the IRS will be borne indirectly by our unitholders and our general partner because the costs will reduce our cash available for distribution.

***The unitholder may be required to pay taxes on income from us even if the unitholder does not receive any cash distributions from us.***

Because our unitholders will be treated as partners to whom we will allocate taxable income, which could be different in amount than the cash we distribute, they will be required to pay any federal income taxes and, in some cases, state and local income taxes on their share of our taxable income even if they receive no cash distributions from us. Our unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the tax liability that results from that income.

***Tax gain or loss on disposition of common units could be more or less than expected.***

If the unitholder sells their common units, they will recognize a gain or loss equal to the difference between the amount realized and their tax basis in those common units. Prior distributions to the unitholders in excess of the total net taxable income allocated to them for a common unit, which decreased their tax basis in that common unit, will, in effect, become taxable income to them if the common unit is sold at a price greater than their tax basis in that common unit, even if the price is less than their original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income. In addition, if the unitholder sells their units, they may incur a tax liability in excess of the amount of cash they receive from the sale.

***Tax-exempt entities and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.***

Investment in common units by tax-exempt entities, such as individual retirement accounts (known as IRAs), other retirement plans and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including IRAs and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file United States federal tax returns and pay tax on their share of our taxable income. If the unitholder is a tax-exempt entity or a foreign person, they should consult their tax advisor before investing in our common units.

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***We will treat each purchaser of our common units as having the same tax benefits without regard to the actual common units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.***

Because we cannot match transferors and transferees of common units and because of other reasons, we will take depreciation and amortization positions that may not conform to all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to the unitholder. It also could affect the timing of these tax benefits or the amount of gain from the sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns.

***Unitholders may be subject to state and local taxes and return filing requirements.***

In addition to federal income taxes, the unitholder may be subject to other taxes, including foreign, state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property, even if you do not live in any of those jurisdictions. The unitholder may be required to file foreign, state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, the unitholder may be subject to penalties for failure to comply with those requirements. We own assets and do business in the States of Louisiana, Texas, Arkansas, New York, Pennsylvania, Ohio, Massachusetts, Vermont, New Hampshire, Rhode Island, Connecticut and Maine. Each of these states, other than Texas, currently imposes a personal income tax as well as an income tax on corporations and other entities. Texas imposes a franchise tax (which is based in part on net income) on corporations and limited liability companies. As we make acquisitions or expand our business, we may own assets or do business in additional states that impose a personal income tax. It is your responsibility to file all United States federal, foreign, state and local tax returns. Our counsel has not rendered an opinion on the foreign, state or local tax consequences of an investment in the common units.

***The sale or exchange of 50% or more of our capital and profits interests will result in the termination of our partnership for federal income tax purposes.***

We will be considered to have terminated our partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination would, among other things, result in the closing of our taxable year for all unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

## Item 1B. *Unresolved Staff Comments*

None.

## Item 2. *Properties*

As of March 12, 2007, we operated two processing plants and gathering systems, and one pipeline system located in Louisiana and Arkansas within our Natural Gas Services segment, six propane rail terminals located in the Midwest and northeastern United States within our Wholesale Propane Logistics Segment and two pipelines located in Texas within our NGL Logistics segment, all of which are owned by us. We are also constructing a propane pipeline terminal within our Wholesale Propane Logistics Segment, which is expected to be placed in service in the second quarter of 2007. In addition, we own a 45% interest in the Black Lake pipeline within our NGL Logistics segment, which is operated by a third party, and a 50% interest in a propane rail terminal within our Wholesale Propane Logistics segment. For additional details on these plants, propane terminals and pipeline systems, please read

Business Natural Gas Services Segment, Business Wholesale Propane Logistics Segment and Business NGL Logistics Segment. We believe that our properties are generally in good condition, well maintained and are generally suitable and adequate to carry on our business at capacity for the foreseeable future.

Our principal executive offices are located at 370 17th Street, Suite 2775, Denver, Colorado 80202, and our telephone number is 303-633-2900.

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**Item 3.** ***Legal Proceedings***

We are not a party to any significant legal proceedings but are a party to various administrative and regulatory proceedings that have arisen in the ordinary course of our business. Management currently believes that the ultimate resolution of these matters, taken as a whole, and after consideration of amounts accrued, insurance coverage or other indemnification arrangements, will not have a material adverse effect upon our consolidated results of operations, financial position or cash flows. Please read Business Regulation of Operations and Business Environmental Matters.

In June 2006, a DCP Midstream, LLC customer whose plant is served by our Seabreeze pipeline notified DCP Midstream, LLC that off specification NGLs had been received into their facility. Our Seabreeze pipeline transports NGLs owned by DCP Midstream, LLC that are delivered to the customer under the terms of a transportation agreement. The customer sent a letter to DCP Midstream, LLC claiming that the off specification NGLs delivered to their facility caused damage to their plant facility. On December 29, 2006, we entered into a settlement agreement with the customer to settle all our issues regarding this matter, and our portion of the settlement was $0.3 million.

In December 2006, El Paso E&P Company, L.P., or El Paso, filed a lawsuit against one of our subsidiaries, DCP Assets Holding, LP and an affiliate of our general partner, DCP Midstream GP, LP, in District Court, Harris County, Texas. The litigation stems from an ongoing commercial dispute involving our Minden processing plant that dates back to August 2000, which is prior to our acquisition of this asset from DCP Midstream, LLC. El Paso claims damages, including interest, in the amount of $5.7 million in the litigation, the bulk of which stems from audit claims under our commercial contract for historical periods prior to our ownership of this asset. We will only be responsible for potential payments, if any, for claims that involve periods of time after the date we acquired this asset from DCP Midstream, LLC in December 2005. It is not possible to predict whether we will incur any liability or to estimate the damages, if any, we might incur in connection with this matter. Management does not believe the ultimate resolution of this issue will have a material adverse effect on our consolidated results of operations, financial position or cash flows.

**Item 4.** ***Submission of Matters to a Vote of Unitholders***

No matters were submitted to a vote of our limited partner unitholders, through solicitation of proxies or otherwise, during the fourth quarter of 2006.

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## PART II

**Item 5.** ***Market for Registrant s Common Equity and Related Unitholder Matters***

**Market Information**

Our common units have been listed on the New York Stock Exchange, or the NYSE, under the symbol DPM since December 2, 2005. Prior to December 2, 2005, our equity securities were not listed on any exchange or traded on any public trading market. The following table sets forth the high and low closing sales prices of the common units, as reported by the NYSE, as well as the amount of cash distributions declared per quarter for 2006 and for the period from December 7, 2005, the closing of our initial public offering, through December 31, 2005.

| Quarter Ended | High | Low | Distribution per Common Unit | Distribution per Subordinated Unit |
|---|---|---|---|---|
| December 31, 2006 | $ 35.28 | $ 27.90 | $ 0.430 | $ 0.430 |
| September 30, 2006 | $ 28.95 | $ 27.48 | $ 0.405 | $ 0.405 |
| June 30, 2006 | $ 29.40 | $ 26.40 | $ 0.380 | $ 0.380 |
| March 31, 2006 | $ 28.25 | $ 24.05 | $ 0.350 | $ 0.350 |
| December 7, 2005 to December 31, 2005 | $ 24.92 | $ 23.08 | $ 0.095 | $ 0.095 |

As of March 12, 2007, there were approximately 37 unitholders of record of our common units. This number does not include unitholders whose units are held in trust by other entities. The actual number of unitholders is greater than the number of holders of record.

We have also issued 7,142,857 subordinated units, for which there is no established public trading market. The subordinated units are held by our general partner and its affiliates. Our general partner and its affiliates will receive a quarterly distribution on these units only after sufficient funds have been paid to the common units.

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### Performance Graph

The following illustrates the comparative total return among DCP Midstream Partners, LP, the Alerian MLP Total Return Index and the S&P 500 Index for the 12 months ended December 31, 2006:

(1) The Alerian MLP total Return Index (NYSE:AMZX) is a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor s using a float-adjusted market capitalization methodology.

### Issuance of Unregistered Units

On November 1, 2006, we issued to DCP LP Holdings, LP, a wholly-owned subsidiary of DCP Midstream, LLC, 200,312 Class C units as partial consideration for the acquisition of our wholesale propane logistics business. The Class C units were issued to DCP LP Holdings, LP in a private offering conducted in accordance with the exemption from the registration requirements of the securities laws afforded by Section 4(2) of the Securities Act of 1933, as amended. The Class C units will automatically convert to common units once the Class C units represent less than 1% of the total outstanding limited partner units. After two years, if the Class C units are not converted into common units, either automatically or by common unitholder approval, they will receive 115% of the distribution amount for common units. For additional information see Note 12 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

### Purchase of Equity by DCP Midstream GP, LP

On November 1, 2006, in order to maintain its 2% general partner interest, DCP Midstream GP, LP purchased 4,088 general partner equivalent units for consideration of $0.1 million.

### Distributions of Available Cash

***General.*** Our partnership agreement requires that, within 45 days after the end of each quarter, beginning with the quarter ending December 31, 2005, we distribute all of our Available Cash (defined below) to unitholders of record on the applicable record date, as determined by our general partner.

***Definition of Available Cash.*** Available Cash, for any quarter, consists of all cash and cash equivalents on hand at the end of that quarter:

less the amount of cash reserves established by our general partner to:

provide for the proper conduct of our business;

comply with applicable law, any of our debt instruments or other agreements; or

provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters;

plus, if our general partner so determines, all or a portion of cash and cash equivalents on hand on the date of determination of Available Cash for the quarter.

***Minimum Quarterly Distribution.*** The Minimum Quarterly Distribution, as set forth in the partnership agreement, is \$0.35 per unit per quarter, or \$1.40 per unit per year. Our current quarterly distribution is \$0.43 per unit, or \$1.72 per unit annualized. There is no guarantee that we will maintain our current distribution or pay the Minimum Quarterly Distribution on the units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement. We will be prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default exists, under our credit agreement. Please read Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Requirements Description of Credit Agreement for a discussion of the restrictions included in our credit agreement that may restrict our ability to make distributions.

***General Partner Interest and Incentive Distribution Rights.*** Our general partner is entitled to 2% of all quarterly distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its current general partner interest. The general partner s 2% interest in these distributions will be reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us to maintain its 2% general partner interest.

Our general partner also currently holds rights that entitle it to receive increasing percentages, up to a maximum of 50%, of the cash we distribute in excess of \$0.4025 per unit per quarter. The maximum distribution of 50% includes distributions paid to our general partner on its 2% general partner interest and assumes that our general partner maintains its general partner interest at 2%. The maximum distribution of 50% does not include any distributions that our general partner may receive on limited partner units that it owns.